THE GOVERNMENT

AND

THE CURRENCY.

NEW EDITION, WITH ALTERATIONS.

BY

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PART I.

CHAPTER I.

Powers conferred by the Constitution in relation to the Currency.

I PROPOSE in the following paper to inquire, first, What are in fact the powers of the government in relation to the currency—how far and in what way the government is enabled under the Constitution to influence or control the currency? And, secondly, What are the essential conditions of a sound and safe currency, and what the most effective means under the Constitution for securing that benefit to the country?

By the first article of the Constitution (8th section 5th clause) Congress has the power "to coin money, regulate the value thereof, and of foreign coin;" and in the first clause of the 10th section of the same article, the States are prohibited "to coin money, emit bills of credit, or pass any law impairing the obligation of contracts." The 5th clause of the 8th section above cited, contains all that is to be found in the Constitution which directly grants to Congress any power over the money, or currency of the country; and taking it in connection with the

1st clause of the 10th section of the same article, (also cited) it follows, that the power so granted to Congress is an exclusive one—in other words, that Congress alone have the power to coin money, regulate the value thereof, and of foreign coin. But still more effectually to provide against those disorders of the currency which might arise from State legislation, it is prohibited to the States to "emit bills of credit, or make any thing but gold and silver coin a tender in payment of debts;" in other words, *to issue bills on the credit of the State, which any parties shall be compellable to accept as money, or in payment of debts.* It must be kept in mind, however, that Congress, though they have the power "to coin money and regulate the value thereof" (to use the words of the Constitution), *have not the power any more than the States* to "emit bills of credit" which any parties shall be compellable to accept as money, or to make any thing but gold and silver coin a tender in payment of debts. It was not necessary that there should be any prohibition to this effect, because the powers of the federal government being all *delegated* powers, *none exist but those which have been granted.* In relation to the money and currency of the country, the only powers granted are, those of *coining, of regulating the value of the coin, and of foreign coin.* The first of these powers—that of coining, requires but little of explanation or comment. No one, at the present day, I imagine, will be likely to call in question the policy of the law, which confided that power exclusively to the hands of the federal government—which preferred one denomination of coin, with its divisions and fractions, to having thirteen, or twenty-six, or any other num-

ber to which, in the growth and expansion of population, the States may ultimately attain. The second power granted—that of regulating the value of the coin, is more open to misconstruction, and will require some remark. What are we to understand by the word *regulation*, as it is here employed? Are we to infer, from the use of this word, that it was intended by the Constitution to confer upon Congress the unlimited power of raising or depressing the nominal value of coin, whatever might be its intrinsic value, or that of the metal contained in it?—of bestowing upon a given quantity of gold or silver, in a given denomination, a value greater than it is intrinsically worth? or of depriving it of some portion of its actual and marketable value? Clearly not. The Constitution, by granting such a power, would have defeated the end which it manifestly had in view—that of securing to the country a fixed and unalterable standard of value; so far, at least, as the nature of things would admit of this. Injudiciously, I think, two metals, either of which would have answered perfectly well the purpose of a standard, were placed upon the same footing as legal tender: but as these two metals are each of them liable to slight variations in value, from causes over which legislation has no control, and as their *relative market value* cannot, therefore, be absolutely fixed, it became necessary, in order to prevent disputes, and for convenience' sake, to establish by legal authority the relations of value which, in the payments of debts, these two metals were to hold to one another. Congress, therefore, were intrusted with the power of *regulating* the relative value of the coins composed of these two metals—of prescribing the weight, purity, and

devices of each denomination, and of determining how many pieces of one denomination should be equivalent, in the payments of debts, to a given number of another denomination. It is plain that, in confiding this power to Congress, it was intended, simply, to obviate the difficulty arising from having the coins of two metals in circulation which were equally tenders in payment of debts. If a debt was contracted in dollars—the usual money of account—it was necessary to determine by authority how many eagles would suffice to satisfy it. The power is clearly not an arbitrary power. It was given, not to enable Congress, by wilfully departing from the real relative value of these metals, to unsettle the property of the country—to give an advantage to the holders of gold, or the holders of silver—to debtors, or to creditors. On the contrary: It was given in a spirit of equity, with the view of preventing undue advantages from being given to any one, and with the intention therefore, that the relative *legal* value of the two metals, or of the coins of the two metals, at any given time, should be so adjusted, as to correspond as nearly as possible to their relative intrinsic value at that time. Any adjustment, therefore, by Congress of their relative *legal* value, which should not be guided by this rule, would be a violation of the spirit in which the power was conferred.

The same principles apply to the power given Congress to regulate the value of foreign coin. This is not, any more than the former, an arbitrary power. The former was conferred, with the view of supplying the defect of a system, which afforded no fixed standard of value; or, it sought, by identifying the values of the corresponding coins of the two metals,

to bestow upon them the unity and character of a standard. The latter—the power of regulating the value of foreign coin—is, simply, that of adjusting the relative legal value of foreign and domestic coin in such wise, that in the settlement of contracts, made in either denomination, no dispute should arise upon a question of equivalents. The power granted by the Constitution to government "to coin money, regulate its value, and of foreign coin," goes thus far; but as it appears to me, not one step beyond. The object of the grant, to wit, the fulfilment of contracts, and the fair and equitable discharge of debts in gold or silver coin, whether foreign or domestic, with the least possible loss of time, and the least inconvenience—furnishes in my opinion a sure guide, by which to determine the extent and limits of the grant. But it will be said, perhaps, "if the power of the government be so restricted—if Congress have no power to interfere with the currency, farther than to coin, and to fix by law the relative value of coins in the payment of debts, (to the exclusion of all other authority to this effect,) what means have we left for regulating that which constitutes, and is likely always to constitute, by much the largest portion of the currency—the bank notes and paper money of the country? I answer that bank notes, in themselves, have no intrinsic value. They, properly, are not *money*, but only *promises to pay money*. Whatever value they may possess is founded upon contract. Wherever the value of coin therefore is invariable, the value of bank notes and paper which are redeemable in the former, must depend upon the laws of contract. If these are wisely framed, and prudently and promptly executed, the

value of notes and paper will correspond, generally, with that of coin—if otherwise, the fault must be with those to whom have been intrusted the enactment and execution of the laws of contract. The market value, it is true, of money itself may vary, and be (as the expression is) cheap at one time, and dear at another in the same place—the same country, or the same province, or district of a country. It is cheap, because it is abundant, and dear, because it is scarce in any country compared with other countries with whom the former, directly or indirectly, has commercial intercourse ; and this without supposing any change to have taken place in the expense of extracting from the mines, the metals of which the coinage is composed. These variations, arising out of the accidents and course of trade, are unavoidable, but they are never very great, nor productive of any very important consequences, except when, through the interference of absurd and violent laws, or the suspension of salutary enactments for the enforcement of contracts, those metals are prevented from finding that level of value among the countries of the world towards which they have a constant tendency. But, whatever these variations may be —and I have observed they are unavoidable—all that it is in the power of legislation to effect, is to make bank notes and paper money, which enter into the same circulation *with* coin, follow as nearly as possible the value of the coin. This is the legitimate, and *only* legitimate office of legislation touching the regulation of that portion of the currency which consists of paper, of which all the descriptions are embraced within the comprehensive one

of *promises to pay.** The business of government, therefore, in matters connected with the currency, is, if properly considered, sufficiently simple. We have already stated what we conceived to be the extent and limits of the power of the federal government in relation to the coinage, and to the regulation of its value. By the exertion of this power, although no unity has been given, as might have been done, to the legal measure of value, by the selection of either gold or silver as the standard ; yet its oscillations have been at least confined to a narrower circle. This power, to wit, that of selecting and establishing the *standard*, and that of providing for the fulfilment of all "*promises to pay*," constitute together the *entire* power of the "regulation of the currency."† This proposition is of great importance in the present discussion, and will require some further elucidation ; in the mean time, it will be proper to consider another question which here naturally suggests itself. Has the Constitution of the United States granted to Congress any power, by the exercise of which they would be enabled to compel the fulfilment of all "*promises to pay ?*—in other words—*the payment of debts due on notes payable on demand ?* In the first article of that instrument, the fourth clause of the 8th section authorizes Congress "to establish a uniform rule of naturalization, *and uniform laws on the subject of bankruptcies throughout the United States.*" By the words "laws upon the subject of

* Paper money, *properly so called,* is of course not included under this head.

† This proposition, as will be seen in the subsequent parts of this work, is to be understood only in a qualified sense.

bankruptcies," is clearly meant laws by which merchants, traders, and all other persons whom such laws may designate, shall under certain circumstances, or upon doing certain acts—such as lead to a suspicion of insolvency—be compelled to surrender up their effects and property for the benefit of their creditors. According to Blackstone, a bankrupt is defined to be "a trader, who secretes himself, or does certain other acts, tending to defraud his creditors." "At present," says Blackstone a little further on, "the laws of bankruptcy are considered as laws calculated for the benefit of trade, and founded on the principles of humanity as well as justice; and to that end they confer some privileges, not only on the creditors, but also on the bankrupt or debtor himself. On the creditors, by compelling the bankrupt to give up all his effects to their use, without any fraudulent concealment; on the debtor, by exempting him from the rigor of the general law, whereby his person might be confined at the discretion of his creditor, though in reality he has nothing to satisfy the debt; whereas the law of bankrupts, taking into consideration the sudden and unavoidable accidents to which men in trade are liable, has given them the liberty of their persons, and some pecuniary emoluments, upon condition they surrender up their whole estate to be divided among their creditors." By the same authority, we are told, that "By many subsequent statutes, but lastly by statute 5 Geo. II. c. 30, BANKERS, *brokers and factors*, are declared liable to the statutes of bankruptcy; and this upon the same reason that *scriveners* are included by the statute of James I., viz. for the relief of their creditors; *whom they*

have otherwise more opportunities of defrauding than any other set of dealers; and they are properly to be looked upon as traders, since they make merchandise of money, in the same manner as other merchants do of goods and other movable chattels." These few extracts exhibit in the clearest manner the spirit and intention of the English laws of bankruptcy. This, very obviously, was to compel such classes of dealers, as from the peculiar nature of their transactions had frequent opportunities of defrauding others, to the punctual payment of their debts and engagements, and in default thereof, to surrender up their effects and property for the benefit of their creditors. It is impossible on the other hand to doubt, that when the clause in the Constitution, giving Congress the power of establishing uniform laws of bankruptcy, was inserted in that instrument, the words "laws of bankruptcy" were understood in the same sense in which they were employed by the highest legal authorities in England. The conclusion seems then to be inevitable, to wit, that Congress *does* possess the power of passing laws of bankruptcy, *not less comprehensive in their design and operation than those, which, at the establishment of the Constitution, were in force in the mother country.*

CHAPTER II.

Insufficiency of foregoing powers.

"But," it may be urged, "admitting Congress to possess this power in its fullest extent, and that also of coining and regulating the value of coin" (the latter in the sense in which it has been limited and

explained), "does it appear that these two powers united, if exercised with even the highest wisdom, would be sufficient without further legislative action, for the due regulation of the currency? *I think I may answer without hesitation, that they would not.* They are far from being, of themselves, sufficient. *They require to be aided by another power*, which, under our system of government, is left in the hands of the Legislatures of the several States; and which, so far as I know, has never yet been exercised, even by them.*

CHAPTER III.

That those who establish a Bank should give security to Government.

I ALLUDE to the power of *requiring that those who establish a bank, should give security to government, or to commissioners appointed under the authority of government, for the payment of their notes.* I regard this measure as absolutely necessary to prevent the establishment of banks by persons, who, having neither property nor character, look upon the privilege of banking only as a means of pillaging and robbing the community.

In order that any country should have a sound and secure currency, it is necessary, first, that there should be a standard of value; secondly, that every separate piece of money of the circulation should correspond in purity and weight with the standard

* Or very partially, and not in such a manner as to afford a fair test of the efficacy of this power, when properly and wisely exerted.

of the same denomination; thirdly, that where notes payable on demand form a part of the circulation (as they do in this country) their payment on demand should be secured; and fourthly, that (so far as it is possible) they should be made to correspond in total amount with that of the coin which they displace.

With respect to the first of the conditions for securing a sound and safe currency—that of a standard—I have already remarked that in this country, although we do not strictly comply with it, by the selection of either gold or silver as the legal measure of value; yet as the values of these metals do not vary materially except in long periods of time, we have, by making the coins of either of them a legal tender according to a fixed relative valuation, so far complied with that important condition, as to secure all the essential practical advantages which belong to it. The second condition—that of the uniformity of the coin in purity and weight—is sufficiently provided for in that clause of the Constitution (8th section, article 1) which gives Congress the power to punish for counterfeiting the securities and current coin of the United States. The third condition—that of securing the prompt payment of notes payable on demand, and which derive their whole value from the credit of their issuers, and now form so large a portion of our circulation; this condition seems not to have been in contemplation at the time of the formation of the Constitution.* Yet a long and painful experience has proved, that it is of vital importance; and that unless it be complied with in the fullest and strictest manner, all other provisions for securing a sound and safe currency must be utterly unavailing. It is true that the laws of bank-

ruptcy which Congress have power to pass, and which should always more especially be extended so so as to apply to banks and bankers, may hold out, if properly framed, a salutary terror for the restraint of that class of bankers who have capital and property of their own; and so far, undoubtedly, such laws would provide for the fulfilment of this important condition. To bankers thus situated, the terror of a compulsory commission in bankruptcy, obliging them at once and peremptorily to make a full and unconditional surrender of their property, would act, doubtless, as a salutary caution against running themselves in debt to the community, and extending their notes and liabilities beyond their means of payment. In the absence of other, and more effectual provisions for securing the payment of bank notes payable on demand, such laws undoubtedly would be productive of very salutary effects. Yet how far they are from protecting the public against the evils of reckless, imprudent, and fraudulent banking, may be learned from the well-known example of England. With the view, therefore, of more effectually securing the prompt payment of bank notes, and of affording the public the best possible guaranty for their ultimate redemption, I would propose that the same authority—be it that of the state, or federal government—which licenses the establishment of a bank, *should require security to be given equal in amount to that of the notes issued.* Nothing more would be necessary in order to effect this than that banks, whether consisting of one person or many, should be prohibited from issuing any notes except upon stamped paper, and that upon applying for stamps for notes they should be obliged, previously to their obtaining

them, to lodge in the hands of government, or of commissioners appointed for the purpose, an assignment of government stock, mortgages of landed and other fixed property,* equivalent to the amount of the stamps issued to them, to be held as security for their payment. The adoption of this rule by the Legislatures of the several States in the establishment of banks, would supersede entirely those endless devices of legislative ingenuity which at present burthen and perplex the statute book, and which all aim at accomplishing, though by a cumbrous and unmanageable machinery, an object which, it is obvious, may be so much more readily effected by the simple plan above suggested. The Legislatures of the different States have exhausted their skill in the invention of expedients for the regulation of the banks which they have established, and for securing, by means of checks and counter-checks, honesty and prudence on the part of their directors. Some enactments, with this view, require, that a certain proportion of the capital of a bank shall be paid up before it can commence business—some that the amount of its issues and engagements shall not exceed a certain proportion to this paid up capital—some go farther, and, not satisfied with prescribing a multitude of regulations for the guidance of the banks, oblige the directors to swear to their observance—order that returns of the affairs of the banks shall be made and published, and even appoint commissioners, sometimes, to see that the regulations prescribed

* The essential point is, not the particular nature of the security, but the fact that the capital of the bank—that which constitutes the ultimate security of the note-holders, is in responsible hands, in whom the public have entire confidence.

have been complied with. At the present moment, after years of dearly-bought experience, and while the painful evidence of the utter futility of this system of legislative quackery still presses itself upon our recollection, it can scarcely be thought necessary that I should occupy much of the reader's time in endeavoring to demonstrate a truth which seems, by almost universal consent, to be already admitted. There are few persons, I believe, at all qualified to form an opinion upon the subject, who are not satisfied, that in the American system of banking, there is some capital defect. Upon this point, I think, there is but little difference of opinion. The question has been, not whether such defect exists? but what it is? and where it is? and what is its remedy? That capital defect (though by no means the only one, as I shall presently have an opportunity of showing) is the almost total want of real responsibility. The regulations made by legislative authority, which have in view the securing that responsibility, are, in truth, the merest mockery. Were there no other objection to them (and there are many) it is a sufficient one, that they cannot be enforced. The little restraint upon the operations of banking which is the result of such regulations, can press (it is obvious) on that class of banks and bankers only, who least require restraint—I mean the conscientious and honest. But, could the intentions of the Legislature be carried out to their fullest extent, and their regulations be enforced in every instance to the very letter, but little good could result from them, so long as they do not afford to the note-holders a security to the full amount of the notes in circulation. Nor must it be imagined that this plan of requiring secu-

rity to the amount of the notes issued is entirely new, even in practice. "In the case of the Bank of England notes," says Mr. Ricardo, "a guarantee is taken by the government for the notes which the bank issues; and the whole capital of the bank, amounting to more than eleven millions and a half, must be lost, before the holders of their notes can be sufferers from any imprudence they may commit." The same rule does not extend to the country banks of issue. Like our own state banks, they are permitted, without previously giving security for the redemption of their notes, to issue them to any amount which they may judge prudent, or to which they may be stimulated by competition and avarice. The consequences have been such as every man of sense, with any knowledge of the subject, might have foreseen. In times of prosperity, and while prices continued high or rising, these banks, which are but remotely affected by the rate of exchange through the metropolitan bank, went on extending their issues, and swelling the circulation of the country, in utter disregard of the most obvious suggestions of both honesty and prudence. The moment at last arrived, when, in consequence of a necessary contraction of issues on the part of the Bank of England, a contraction of their issues also became unavoidable, and the result, but too frequently, was, the utter ruin both of the banks, and of hundreds of thousands who had the misfortune to be connected with them. Would these banks have acted thus recklessly had they given full security for the whole amount of notes issued? Let us hear Mr. Ricardo upon this point. "Why," he asks, "is not the same principle followed with respect to the

country banks? What objection can there be against requiring of those who take upon themselves the office of furnishing the public with a circulating medium, to deposit with government an adequate security for the due performance of their engagements? In the use of money every one is a trader; those whose habits and pursuits are little suited to explore the mechanism of trade, are obliged to make use of money, [bank bills,] and are no way qualified to ascertain the solidity of the different banks whose paper is in circulation; accordingly, we find that men living on limited incomes, women, laborers, and mechanics of all descriptions, are often severe sufferers by the failures of country banks, which have lately become frequent beyond all former example. Though I am by no means disposed to judge uncharitably of those who have occasioned so much ruin and distress to the middle and lower classes of the people, yet it must be allowed by the most indulgent, that the true business of banking must be very much abused before it can be necessary for any bank, possessing the most moderate funds, to fail in their engagements; and I believe it will be found, in by far the major part of these failures, that the parties can be charged with offences much more gross than those of mere imprudence and want of caution." It is not, however, to be understood that the taking security for the payment of the whole amount of notes issued in the manner above described, is, of itself, sufficient to assure to the community the advantages of a perfectly invariable currency. It has already been remarked that the precious metals themselves are liable to slight variations in value—more or less permanent according to the nature of

the causes which produce them. It can hardly be expected, then, that a paper currency redeemable in those metals, and which derives its whole value from that relation, should possess a steadiness of value superior to that to which *they* can lay any claim. All that we can hope to accomplish is, by affording the best possible security to the holders of notes and bank bills for their ultimate payment—to inspire a confidence in the *soundness* of the currency—to prevent, as a consequence, that ruinous depreciation which is the result of distrust, and to offer to the banks and their directors the strongest of all possible motives for pursuing the straight path of honesty and prudence—since, whatever the amount of notes they issue, they must previously have given ample security in bonds and mortgages* lodged with government, and held in trust for their redemption. Nor must it be overlooked, as one of the advantages springing out of the adoption of this system, that by means of it the business of banking would be placed upon a far more respectable footing than it has heretofore occupied. Thriftless schemers, and reckless speculators and sharpers; men bankrupt in character and fortune, would soon learn, were such a system adopted, that banking was no longer a field upon which they could adventure with any prospect of reaping either honor or profit. These are some of the advantages which, it appears to me, would result from using the means I propose, for securing the prompt payment of bank-bills payable on demand, or at any stipulated period.

On the other hand, I know of no objection which

* Or, in what may be çonsidered as forming still better security —government stock.

can be made to its adoption, which may not easily be shown to be groundless. It is true, that the stocks and mortgages assigned over to government by the banks, and held in trust for the redemption of their notes in the event of their not fulfilling their engagements, would no longer be under their control, and could not, at their option, be converted into cash and loaned out to A, B, and C, to be dispersed to the four quarters of the earth in search of advantageous investments, or profitable ventures. The capital of the banks thus pledged to government would not therefore be unprofitable, however. The owners of the mortgaged lands would continue to receive their rents, or incomings, whatever they might be; and would pay the banks the interest upon their loans; and the owners of the government stock and securities, *i. e.* the banks, would receive the interest due upon them, as in any other case. If the banks are prevented, by this restraint upon the employment of their capital, from making occasionally great profits; they are prevented also from incurring great and ruinous losses; which, as they deeply affect the interests not only of the banks, but of the public also, and the note-holders, the government is clearly called upon by every consideration of duty to avert. The knowledge, too, on the part of the public and note-holders, of the existence of this security, would, by inspiring confidence in the stability of the banks, and soundness of the currency, prevent those eager calls for the payment of notes which are caused by distrust, or panics; and would enable the banks to do business with a smaller amount of specie than is found necessary under the present system. It can scarcely escape remark that the property, or funds

of the banks which are put in pledge with the government for the security of their notes, may form but a portion, and possibly not a very large portion of their entire capital. Any other, or additional capital which the banks may own, they may employ, or dispose of in any way which interest or avarice may suggest. But for that portion of it which forms the security of the public and the note-holders, it is the duty of the government to see that it be exposed to none of the risks of trade and mercantile adventure; and that, so far as it is possible by this means to prevent it, it sustain no diminution in its value.

CHAPTER IV.

That the requiring security is justified by the necessity of protecting the note-holders and the public.

But would not such a measure be too direct an interference with the business and industry of society? I can see no solidity in such an objection. It must be kept in mind, that banks undertake to furnish the community with a currency in the place of gold and silver coin, and that by the use of the privilege granted them for that purpose, they make a profit—that where banks are established, and bank notes have taken the place of coin, the public have no choice left them but to make use of the substituted currency in almost all their pecuniary transactions; and that a very large part of every community, from their habits and pursuits, must necessarily be wholly disqualified for forming any correct judgment of the

solidity of the bank notes which are offered them. Does it seem unreasonable then to require, that those who furnish this currency, and who derive a profit from its use and circulation, should give a pledge to the public as security for its soundness? A pledge, too, which implies no loss to them, and places no more restraint upon them in the use of their property, than strict honesty and prudence would have imposed. Does it not, we should rather ask, seem unreasonable, that any man, or association of men, should be allowed a privilege, the exercise of which is attended with the greatest evils to the community, and that they should be unwilling to submit to the only restraint—and that by no means a severe one—by which those evils may be averted? Why is not the coinage of gold and silver left free to all who think proper to engage in it? Clearly because the public, who are compelled to be dealers in coin, and who have no means of ascertaining, without much trouble, time, and expense, the real value of the coins which may be offered them, would be exposed by such a system to the greatest frauds and impositions. It has been wisely judged, therefore, to withhold altogether from individuals or associations, the right of coinage. Is not this too an interference with the business and industry of society? Does it not go a step further than the other? And yet, is it not sanctioned and justified by the very same reason which we urge in favor of that other—the convenience, the security, and the well-being of the community? Surely, if the public interests and security may justify the withholding, or taking away, the privilege of the coinage, it will, by a parity of reason, justify, too, the imposing a restraint upon the exercise of a

privilege which, in its nature, so much resembles it as that of issuing bank bills, and notes payable on demand. It would be easy for me, were it not uncalled for, to multiply the cases in which legislative interference has been found necessary in order to protect the public against evils, against which they cannot protect themselves. It is no reply to this to say, that bank bills are not a legal tender, and may therefore be refused. We have already remarked, that where bank notes have become the general medium of circulation for performing almost all the ordinary pecuniary transactions of the community, they of necessity and in fact become a tender; since no one, without the greatest possible inconvenience and loss, can ever refuse them.

CHAPTER V.

Further suggestions in continuation of the same subject.

I HAVE endeavored, in the foregoing observations, to recommend to the public attention, what appears to me to be the only effectual remedy, for such of the disorders of our banking system *as proceed from fraud or dishonesty in the management of banks, or from distrust and want of confidence, or from that degree of imprudence on the part of the banks, which is closely allied to dishonesty*—disorders which consist in the unsoundness and worthlessness of the paper portion of the currency, this having ceased, in consequence of the inability of the banks to redeem their notes, to be any longer the

representative of coin. The disorders of the currency proceeding from the causes just mentioned, must not be confounded with those variations in its value which are the result of a too large, or too small an amount of it, in proportion to the amount of the business and transactions of the country. *These variations, indeed, can scarcely with propriety be called disorders.* They are consistent with a perfectly sound state of the banking system, and may occur, even where the currency is purely metallic. They do not necessarily imply any fault or imprudence on the part of those who are intrusted with the office of issuing paper. They may, and do often arise, from causes wholly unconnected with the increase or diminution of the amount of currency. As they proceed from disproportion between the amount, or value of the business and transactions of the country, and the amount, or value of the instrument employed for performing such business and transactions, they may arise from any cause whatever which gives occasion to that disproportion. But of this part of the subject I shall treat more at large by and by. In the meantime, it is proper to remark, that the suggestions which I have now made, have had a relation only to the three first of the conditions which I considered essential to the existence of a sound and secure currency. The last of these three conditions of a sound and secure currency, is that which provides for the payment on demand, or ultimate redemption, of that portion of the circulation which consists of bank bills and notes. Of this condition I have spoken somewhat more at length than of the two preceding ones; not because in itself it is at all more important than they are, but because of the

reater difficulties which stand in the way of its ulfilment; and because, in the neglect to comply vith it on the part of our rulers, have originated, I m firmly persuaded, almost all the disorders of the urrency which, since the general establishment of anks, have been the bane of the country. The difiiculties I allude to, however, are fortunately not inrinsic. They are merely incidental, and spring out f causes which have no necessary connection with he subject matter itself. If the Constitution, which rovides for the fulfilment of the two first conditions, o wit, the establishment of a standard of value, and he uniformity of the coin, and its correspondence in alue with the standard, had provided effectually also or the security of the note-holders and the public gainst the frauds and dishonesty of bankers, no such lifficulties would now probably exist, and the counry would have been saved much severity of suffering. Congress, in that case, would have obliged all those who undertook to provide the country with a currency, to give ample security, in the manner above described, for the redemption and ultimate payment of their notes—the only measure, it may be confidently affirmed, which can ever be effectual for securing to the country the benefits of a sound and secure currency; and for protecting it against the perpetual recurrence of those ruinous and widespreading bankruptcies which, for so long a time, have been at once its disgrace and scourge.

The most latitudinarian interpreters of the Constitution will scarcely, at the present day, claim for Congress, as a part of the power of coining and regulating the value of the coin (as above explained), the incidental and constructive power of establishing

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banks throughout the Union to the exclusion of that power in the States. But it does not seem out of the range of possibility to believe it may be admitted, that, under the Constitution, such a power of establishing banks may belong to Congress concurrently with the similar power in the Legislatures of the States. Upon this point, however, it is not necessary at this moment to express any opinion. But I may merely suggest, that should Congress, in the exercise of such a right, establish banks throughout the country, and adopt in respect to them such a measure as I have recommended above, one of two results must inevitably follow—either the State bank system must be broken up and destroyed, or the several States, in the establishment of their banks, must be compelled to adopt a similar measure of bank policy. If, as I have endeavored to show, the adoption of this measure, to wit, the obliging the banks to give security for the whole amount of their notes in the manner above described—must, by inspiring confidence in their soundness, be attended with great advantages to the banks themselves, as well as to the note-holders and the public, it would follow, that the notes of the banks established by Congress upon this principle, would very soon supersede the circulation of all other notes, unless the local Legislatures, by establishing their State banks upon a similar principle, should secure to them a similar degree of the public confidence. It is obvious, however, that, at the present moment, there is not the remotest probability of so important a step being set on foot, through the agency of the Federal Government. The rejection of the bill for the re-establishment of the late United States Bank,

n accordance, I am persuaded, with the popular sentiment, and with the dictates of sound policy—and the growing disposition on the part of the public to incline to the side of "strict construction" in the decision of all constitutional questions, makes it n a high degree improbable that Congress would venture, for the present, at least, upon so bold a measure of reform as the one which has already been sufficiently explained. Under these circumstances nothing remains to us but solemnly, and with a deep sense of the importance of the object proposed, to invoke to its accomplishment the aid of the Legislatures of the States. They, and they alone, hold in their hands the power, by co-operating in this great work of financial regeneration, of placing the currency of the country at once and for ever upon a safe and immutable basis; so far, at least, as it is possible to do so by rendering the paper portion of it universally and immediately redeemable; making it every where and at all times of equal value with gold and silver coin, of which it is the representative, and inspiring the public mind with an entire, and, at the same time, a just and well placed confidence in its soundness. This brings us to the last branch of the subject which we propose to discuss, viz., the fourth of "the essential conditions of a secure and safe currency." But before entering upon the consideration of this part of the subject, it may not be amiss to say a few words in reply to an objection, which may not improbably be made to the plan that I propose.

CHAPTER VI.

Note-holders and Depositors.

It may be said, perhaps, that it is unfair to make a distinction among the creditors of the bank, in favor of the note-holders. It does not appear to me that this objection has any solid foundation. It must be kept in mind that it is the duty of the government to take care that every note of any given denomination should correspond in value with the coin which it represents, upon the same principle, and for the same reason that it is the duty of government to provide, that all the coins in the currency shall correspond in weight and purity with their respective standards. The note-holders are the public, and are compelled to receive, and make use of bank notes, without any means of ascertaining their real value. They must receive and use them, as they receive and use coin; and with equal confidence in their possessing the value which they bear upon their face. If they cannot do this, bank notes are not fitted for the purposes of circulation, and should not be permitted to be issued; it were better to return to an exclusive hard money system. But if bank notes are permitted to be issued, and to be incorporated with the currency, it must be upon the condition, that they may be received and used with the same confidence as coin. Unless they may be so received and used, they are merely a nuisance, and one against which it is impossible that the public should protect themselves without the intervention of the strong arm of the government. It is upon

his ground that it becomes the duty of government o protect the note-holders. The note-holders are he public, and the public have a right to demand he protection of government against an evil against which they cannot protect themselves; more especially in cases where, as in the present instance, the evil complained of is, in a very great degree, the result of previous measures of the government itself. If banks are to be established, privileged, and sanctioned under the authority of government, it is but reasonable to expect that government too will take care that what they have cherished and dandled into strength (if not brought into existence) shall not be productive of evil to the community. Is this the situation in which the depositors in a bank stand in relation to the government? Clearly not, I think. The depositors have made their selection of a bank in which to make their deposits. They are supposed to use prudence and discretion in the choice they have made, and to have time and opportunity for making a good one. The government are under no more obligation to relieve them of the necessity of using prudence and circumspection, than they are under to relieve any other class of persons who, for gain or security, have placed their property in the hands of third parties. The note-holders, on the contrary, are not supposed to make any selection, or to have any time or opportunity for making one. The very term currency, implies the absence of selection, as well as of the necessity of using any means for making it. A currency which requires selection, and the use of prudence and circumspection in its employment, is, properly speaking, no currency, but a nuisance, and as such, had better

be abated with all convenient speed. The objection, therefore, to making a distinction between these two classes of bank creditors, in favor of the note-holders and the public, appears to be without foundation.*

CHAPTER VII.

Proper limits to the increase or diminution of the amount of the Currency.

The fourth and last of the "essential conditions of a sound and secure currency," is, as has been already stated, that it shall not exceed, or fall short of, the amount necessary to the wants and business of the community—or, to express this condition more exactly, that no increase or diminution of the actual amount of the currency shall take place, unless called for by an increase or diminution in the demand for it, in the course of the business of the country; in such wise that no rise or fall of prices shall take place in consequence of any depreciation or appreciation of the currency itself. But, in order that this part of the subject may be better understood by those who may happen not to be familiar with discussions of this nature, it may not be amiss for me to begin, perhaps, by making a few observations upon the principles which regulate and determine the value of gold and silver in the general market of the world; since, where these metals fur-

* See Notes and Dissertations on the "Wealth of Nations," by J. R. M'Culloch, Esq., who has treated this, and most of the foregoing points, with much ability.

ıish the material of the coin of the currency, the aws which regulate the supply and value of these ;onstitute in fact a part of the laws of the currency.

CHAPTER VIII.

Natural causes of the value of the Precious Metals.

I SHALL begin by stating, that the value of gold and silver, like that of all other commodities which possess value, is owing to the difficulty of getting them, coupled with the desire of having them. This difficulty of getting a commodity may arise from various causes. A commodity may (for example) be limited in quantity, and may, all of it, be appropriated. In such a case, the difficulty spoken of arises from the unwillingness on the part of those who possess the commodity, to part with it to those who desire to have it; and from this relation would spring a value—greater or less—according to the greater or less intensity of the struggle between these two parties—the owners of the commodity, and those who desire to become such. The value of the commodity in the mind of the one party rises with the desire to possess it, and in that of the other, with the desire to retain it; and in such a case, the price of it—the expression of its value in the eyes of the purchaser—may rise indefinitely high, and be limited only by his means of purchasing. The price, it is obvious, in this instance, can have no reference to the labor of production; since, according to the supposition, the amount of the commodity cannot be

increased by labor. If there were no mines of gold and silver, and the quantity of these metals actually existing in the world could not by any means be increased in amount, their value would arise from, and be regulated by, the principle I have just laid down; and could have no reference whatever to labor, since labor in such a case could have no sort of relation to them; if we except only that of the transfer of them from the hands of the seller of them to those of the purchaser. If, under these circumstances, and while the value of the precious metals, through the operation of the principle just explained, had adjusted itself to that of other commodities, numerous and very productive mines of them should be discovered, which should put it in the power of every one to supply himself with any given quantity of them at a less cost of labor, or of the value of it in commodities, than previous to such discovery it had been necessary to give, the value of the precious metals estimated in labor, or the productions of labor, must necessarily fall, and be reduced at once to the cost of production. On the other hand, mines might be discovered, which, it not being possible to produce from them any given quantity of gold or silver, except at a greater expense than that of the previously established price of those metals, would have no more effect upon their value, than if such mines had never existed, or had never been discovered.

A third case occurs, where, under circumstances similar to those first stated, mines of these metals should be discovered, which yield indeed to the capital employed in working them a quantity of gold or silver larger than could be obtained in exchange for the same amount of capital in the way of purchase at

the price or relative value established through the operation of the principle of competition between buyer and seller previous to the discovery of such mines; but where, at the same time, from natural or political causes, the working of such mines is necessarily confined to the hands of a few, or can afford employment to but a limited amount of labor, and where, in consequence of this, the quantity of gold or silver actually produced from them is but small, compared to the amount already existing, and in use in the world. It is obvious that the value of these metals could be but very slightly affected by the occurrence of such an event. The effect of it would be, not to bring down the previously established value of gold and silver to the cost of production in such mines, but to enable the owners or workers of them to command high rents or large profits. The gold or silver which they produce from the mines at a small cost of labor or capital, they are enabled to dispose of at the higher value of those metals previously established in the world through the operation of the principle before mentioned.

The case just supposed is that which actually exists. The quantities of these metals which are annually produced are in fact very small, compared with the amount of them already in use in the world. Their value, therefore, is not materially affected, except in long periods of time, by the additions annually made to their amount from the produce of the mines. These additions, indeed, by meeting the increasing demand for the precious metals originating in the extending population and wants of the world, and by supplying their wear and tear, have a tendency in long periods of time rather to preserve

the equality of their value: by preventing that gradual diminution in their amount in proportion to the increasing demand for them, which must otherwise unavoidably take place. If the increasing wealth and prosperity of the world, or any other cause, should occasion a great increase in the demand for these metals, the enhancement of their value, proceeding from this cause, might lead to the working of a class of mines which, at present, are not considered sufficiently productive to make the business of working them profitable—a conclusive proof that the value of gold and silver is not, as has been sometimes asserted, limited and determined by the cost of their production from the mines which may be actually in use. So far from this, it is the value of gold and silver in the general market of the world, arising out of the actual relation of demand and supply, which determines whether the poorer class of mines, which yield those metals at a greater cost of labor and capital than those in actual use, shall be brought into cultivation—whether, in other words, the cost of producing those metals shall be increased or not. The utmost that can be said of the influence of the mines upon the value of these metals is, that where, in consequence of an increased demand for them in proportion to their supply, their value, compared with that of other commodities and labor, rises; the enhancement of their value, thus caused, is checked and moderated by the supply which is furnished by the new mines which have been opened—a supply, it must be kept in mind, which would never have been furnished, had not the value of those metals been sufficiently high previously to pay the profits of the miner. If the supply from mines newly

discovered should be so abundant as to put it in the power of every one, by the application of labor, or by paying the price of labor so applied, to obtain for himself whatever quantity of gold and silver he wanted, at a rate cheaper than that at which he could previously have obtained it, there can be no doubt (as we have already remarked) but that the value of these metals would very soon be lowered to the cost of their production. But even in this case it may be observed, that if, after the lapse of years, or perhaps centuries, this abundant supply of gold and silver should become insufficient for the growing wants and opulence of the world, although still a given quantity of them should be produced from the same mines at the same cost as before, the value of these metals would inevitably rise, from the effect of an increased demand, above the cost of their production; and their value thus enhanced, would lead to the working other less productive mines, and at the same time raise the profits of the more productive ones; or, if the owners of the mines and the capitalists who worked them, should be different persons, would afford rent to the former over and above the ordinary profits to the latter. The cost of working the least productive mines of gold and silver is the price at which, making an allowance for the expense of transportation, insurance, &c., and the ordinary profit upon capital, these metals may be purchased—which, in other words, is saying, that unless the price of gold and silver is sufficient to cover these expenses, the least productive mines would be given up. In the same way, and for the same reason, the average price of corn must be sufficient, at least, to pay the cost of cultivating the

poorest soils in tillage, together with an ordinary profit upon the capital laid out, or such soils must be left uncultivated. The high price is the effect of an increased demand and insufficient supply; and the enhanced price thus arising, by holding out to the cultivator the promise of an indemnifying profit, leads to the application of labor and capital to the cultivation of the poorer and less productive soils, or to the adoption of more costly methods in the cultivation of those already in tilth.

From the foregoing observations it will be perceived, that the value of gold and silver is determined, like that of all other commodities of which the supply is limited, by the principle of demand and supply. That, on the contrary, where the supply may be indefinitely increased at a given cost, their value never can exceed that cost, though it may fall far short of it. That, in the latter case, the actual supply will not be increased, until, through the increased demand, their price shall have risen sufficiently high to pay for the cost of their production; at which time their price must cease to rise, as, according to the supposition, an indefinite amount of them may be obtained at a given cost. On the other hand, as I have already remarked, should the indefinite supply be afforded at a cost less than that of their actual value, as resulting from the previously existing demand, the effect must be at once to reduce their value to that of their cost. But if, as is actually the case of gold and silver, the supply which may be obtained by labor and capital at a certain cost, is very limited, compared with the amount already in use and circulation in the world, the relation of supply and demand is not materially changed; or, as I

have already remarked, that relation is rather prevented from changing, inasmuch as the additions annually made from the mines serve to make up for the wear and tear of those metals, and to supply the increasing demand occasioned by the multiplying wants and population of the world.

I have said thus much upon the nature and causes of the value of these metals, because no one, without some knowledge of these, can have any sound or clear ideas in relation to the question of the currency.

CHAPTER IX.

Employment of Gold and Silver as Money.

These metals form the basis of the currencies of all nations at all advanced in civilization; and the same principles which regulate their value in the shape of bullion, equally determine it in that of coin. The employment of gold and silver as money, for the purposes of which they are, by their qualities, peculiarly fitted, contributes to increase the demand for them, and consequently, according to the principles above laid down, has a tendency at the same time to raise their value, and to increase, as the effect of this, the quantity produced from the mines. But a gold or silver coin of a given weight and purity, is of the same value (making some allowance, where this is necessary, for the expense of coinage) with a portion of bullion of similar weight and purity, of the corresponding metal. The question whether bullion shall

be converted into coin, or into plate and articles of luxury, or be kept in the shape of bullion, must always be one of mere profit to the owner. He may find it profitable, according to circumstances, to coin his gold, or to convert it into articles of luxury, or lastly, to export it to foreign countries for commercial purposes. The first he would do, if, in consequence of a deficiency in the currency in proportion to the business of the country, prices had fallen, and commodities and goods, and property of all sorts, had become cheap in their money valuation; the second, if from any cause not connected with the value of gold, the prices of articles of luxury composed of this material had risen, and the profits of the artists who are employed in manufacturing them had become high; the third, if the currency of the country were either full or redundant, and at the same time the manufacturers of gold and articles of jewelry were making but barely ordinary, or less than ordinary profits; and by sending his gold abroad to a foreign country, where that metal is less abundant, he might exchange it for a greater amount of commodities and labor than he could obtain for it at home. In these cases, gold is to be regarded as a material having a value in itself, independently of the profit which may be made of it by employing it as capital, just as a profit may be made by the employment of capital of any other description.

CHAPTER X.

Coinage of Gold and Silver.

Although the coinage of gold and silver adds very much to the convenience of using these metals as a medium of exchange and a measure of value, and fits them peculiarly for that rapid circulation from hand to hand, which has led naturally to the application of the word "currency" to the portion of them which has been coined; yet it is clear, that had they never been coined, they would, nevertheless, still have been employed as the best means of measuring the value of commodities, and of facilitating their exchange and distribution. For these purposes, it is obvious that, supposing their value fixed, and the economy of using them equal, the quantity of the precious metals required would be greater or less, in proportion to the amount or value of the transactions and exchanges to be effected. The greater the amount or value of goods, commodities and property, brought into market and seeking for a purchaser, the greater must be the amount or value of the medium of exchange or currency employed for effecting the purchase; the greater therefore would be the proportion of these metals used as currency; and in the same way, if the amount and value of the exchanges to be effected should become less, a less quantity of these metals would be required. Thus, the proportional quantities of gold and silver used in the currency and in other ways, would be liable to variations; and the mere circumstance of coinage, it is obvious, can make no essential change in these relations.

CHAPTER XI.

Distribution of the Precious Metals throughout the World.

Through the operation of the same principle of demand and supply, the precious metals are distributed among the countries of the civilized world; each one attracting to itself a portion of them, greater or less, according as the price in commodities (if I may so express myself) is greater or less, which it is willing and able to pay for them. A country like France, which, besides being densely peopled, and having a great variety of occupations and much division of labor, and having consequently a great number of exchanges to perform, employs the precious metals to a great extent as currency, would naturally require a greater amount of them in proportion to its wealth, than a country similarly situated, which employed a currency consisting almost exclusively of paper. If France, like England and the United States, should substitute a bank paper currency to a very large amount, in the place of gold and silver coin, her demand for these metals would be greatly diminished; and the value which she now pays for them in the shape of commodities and labor, would in part be saved. The quantity of the precious metals, which, under such a supposition, France would possess, must necessarily be less than it had previously been; but as the diminution in the supply is the consequence only of the diminished demand, and does not imply the existence of any cause connected with the production of these metals from the mines, or with the amount of them

in the general market of the world, it would not be attended with any appreciation in their value, which would continue unchanged, except in so far as it might be in some slight degree affected in the contrary direction (in other words be depreciated) by the falling off in the general demand in the market of the world, occasioned by the lessened demand in France. It follows as a corollary from this, that though a country should possess these metals in much larger quantities in proportion to its population and extent than others; yet, if the supply were not greater in proportion to the demand than elsewhere, their value would not necessarily be depreciated by their quantity.

As in the market of the world, the value of gold and silver rests upon the relation of the general demand compared with the general supply—modified in its operation by the accessions made to that supply by the productions of the mines; so, their value in each country depends upon the relation of demand and supply as it exists in that country—modified in its operation by the demand and supply in other countries and the world at large. The supply of these metals in any country is a part only of the general supply; and is liable to be exported to any foreign country, whenever the demand for them is greater abroad than at home. The relation therefore of demand and supply in any given country, is liable to be disturbed by every change which takes place in the similar relation existing in foreign countries; and it is through the operation of this cause, that the values of these metals in different countries have that constant tendency towards an equality, which has so often been remarked. The circum-

stances attending the situation of a country must be peculiar, which should cause its currency of gold and silver for any considerable length of time to be either very much cheaper or very much dearer than that of neighboring countries. Remoteness from the great reservoirs of the precious metals, and the possession or production of but few commodities which are valued in foreign countries where those metals are to be procured, would have a tendency to render them dear and scarce, no doubt: and so long as these causes continued to operate, prices in a country so situated would be comparatively low; and the quantity of the precious metals necessary for performing the functions of a currency comparatively small.

CHAPTER XII.

Influence of Manufactures and Commerce upon the distribution of Precious Metals.

The very reverse of the situation here supposed is that of England. She possesses a great variety of manufactures which are highly valued in foreign countries, and which, notwithstanding, from her superior skill and knowledge in the application of industry, are produced at home at a comparatively small cost of either labor or capital. England is thus enabled to exchange her manufactures—the product of a comparatively small amount of labor and capital—for foreign commodities, which are the product of a comparatively large amount of labor

and capital.* The foreign commodities thus cheaply obtained abroad would be imported to the great profit, at first, of the importers, and would afterwards become cheap from their abundance, compared with those home productions in the manufacture of which no great improvements nor great saving of labor had taken place. So long as England shall continue to possess, in the arts and manufactures, the advantage of a great superiority of skill and knowledge over the rest of the world, and through the effect of this advantage shall be enabled to save labor, and produce a very large quantity of commodities at a very small cost, and shall find for these commodities an extending sale and market in foreign countries—so long will she continue to obtain and possess foreign products—and among these gold and silver—in cheapness and abundance. It must be obvious, upon the least reflection, supposing England under these circumstances to enjoy a perfectly free trade with other countries, and to be exempted from all restraints upon her importations and exportations, that the commodities and manufactures in the production of which she possesses so great an advantage over other countries must ultimately become the means, or purchase-money (if I may use the expression), for procuring all other commodities for which she has any demand. These latter commodities, in the production of which she possesses no advantage over foreign countries, she will rather purchase from abroad, than produce at home. Such commodities, if produced at home, must necessarily be dear, when

* Or in the production of which some peculiar advantages of soil or climate, or both, have had a large share.

compared with those in whose production, skill and knowledge have supplied the place of labor.

If we suppose labor no more effective in one country than another; or, in other words, if we suppose that the product of a day's or year's labor of an inhabitant of Hindostan is, in the general market of the world, of the same value with that of an inhabitant of England, France, or any other country—we must infer that in the distribution of wealth among the different countries of the world, each will have a share pretty much in proportion to the amount of its population. Suppose, for example, that all countries were placed in similar circumstances in relation to soil, climate, &c., and that they all applied their industry to the production of exactly the same commodities, and in the same proportions: it is very clear, that their relative wealth, in such a case, would be respectively in proportion to their population. So if it were possible to refer the product of a day's or a year's labor in England, and that of a day's or a year's labor in Hindostan, to some common standard of comparison, and the former were found threefold more valuable than the latter, it would follow, that the relative wealth of the two countries would be in the compound proportion of their population and productiveness; and supposing the population of Hindostan to be nine times greater than that of England, the value of her annual product would be to that of the annual product of England as 3 to 1; and assuming gold or silver to be the common standard of comparison, it would follow, that Hindostan, with a population nine times greater than that of England, would have annually the means of purchasing only three times more of

gold or silver than the latter would have. But although the incomes of nations, like those of individuals, may be estimated in gold or silver; the wants of nations, any more than those of individuals, would never admit of the entire product of their capital and labor (that is, their income) being kept in the shape of the precious metals, coined or uncoined. As an individual keeps by him in money only a small part of his annual income; so a nation requires but a small proportion of its annual product in the shape of currency; and as the greater the income and expenditure of an individual, the greater also must be the amount of the cash that he keeps by him for buying and selling—so the greater the annual product, or income of a nation, the greater too must be the amount and value of its currency. Taking then the same examples of England and Hindostan, and making the same suppositions in relation to their relative population and annual productiveness, it would follow that the currency of Hindostan ought to be to that of England in the proportion of 3 to 1; while her population to that of England is in the proportion of 9 to 1. If the whole currency (gold and silver) of Hindostan were distributed equally among the inhabitants of that country, and the same thing were done in England with the currency of the latter country, each individual Hindoo would have but one-third as much gold or silver as each individual Englishman. Gold and silver would be more plenty (to use the common expression) in England than in Hindostan; yet so long as the labor of England, in the general market of the world, should continue to be more effective than that of Hindostan, so long would the former country, as compared

with the latter, retain this relative abundance of the precious metals. The same principle which in this instance determines the relative abundance of gold and silver in England and Hindostan, determines likewise their relative abundance in all countries whose products come into the general market of the world. Whether the greater effectiveness of labor in any country, when compared with another, be due to superior skill and knowledge; or whether it proceed from greater fertility and variety of soil—the possession of mineral wealth, or any other external natural agency; from whatever cause this superior effectiveness of labor may arise, the result of it, so long as it continues, is the same.

That the relative abundance of the precious metals in two or more countries, will depend upon the relative effectiveness of the labor of a given number of laborers for a given time, proceeds upon the supposition (which may be generally assumed as true) that the demand for those metals in each country is in proportion to the amount or value of its income or annual production, as estimated in the general market of the world. If, however, a case should occur in which such a supposition should be found not to correspond with the fact—if, for example, two countries of equal population, and equal effectiveness of labor, should demand very different quantities of the precious metals, and one, consequently, should have much less of them than the other, would these metals therefore have a higher value in the country where they are in small amount than in that where they are more abundant? It is obvious they would not. In the United States and in other countries where bank notes are substituted in the

currency to a large amount, in the place of gold and silver coin, and where, consequently, the whole quantity of those metals in use is very much less—probably one-third less than it would have been had no such substitution taken place—no one will conclude that the diminution in their quantity would cause any appreciation in their value. If in this case the supply is less than before, it is solely because there is less demand; the supply therefore will not, from being limited in quantity, rise in value above any other portion of the mass of these metals diffused through the world.

Again, let us suppose two countries—England and Spain, for the sake of example—to have an equal population and equal industry; but let us farther suppose the labor of England threefold more effective in the market of the world than that of Spain. England then, with her annual product, or income, can command three times as much of the precious metals in foreign markets as Spain; or, which is the same thing, can obtain three times more of all foreign commodities. Now, if we express the amount of these commodities which England can thus command by the number *thirty*, Spain, according to the supposition, should have the third of *thirty*, or *ten;* and if we suppose that which is generally true, viz.: that the currency of a country bears a certain proportion in value to its income, then it will follow, that if Spain, with its income at *ten*, requires *one* of gold and silver for its currency, England, with its income at *thirty*, will require *three*. *Thirty*, the expression of the income or annual product of England in the general market of the world, is of no more value, compared to labor in that country, than

ten, the income of Spain, is, when compared with labor in the latter country; and *three*, which expresses the proportional currency of England, has no more value in that country, than *one*, which stands for the currency of Spain, has, when compared with labor in Spain. Thus we are enabled to understand how the gold and silver currency of one country may be three times greater in quantity than that of another of equal population and equal industry, and yet have no tendency to flow from the country where it is abundant to that where it is scarce. If a guinea commands in England a week's labor of a single laborer, in Spain it will command three weeks' labor; but the product of three weeks' labor in Spain is equal only, in the market of the world, to that of one week's labor in England, and would exchange for the same quantity of gold and silver. It is manifest, therefore, that although, according to the supposition, money is three times more abundant in England than in Spain, no advantage would be gained by transmitting any portion of it from the former country to the latter. On the other hand, money (that is gold and silver) would not, in the case supposed, be sent from Spain to England; for a guinea, which in Spain commands three weeks' labor, in England will command only one week's labor; and the product of three weeks' labor in Spain is, in the market of the world, of the same value with the product of one week's labor in England. No motive of gain, therefore, could lead to the transmission of money from Spain to England, since any given amount of it will, whether it be in Spain or in England, be productive of the same

amount of value. Although then, in the case supposed, money, that is gold and silver money, (for in all these reasonings we have supposed currencies to be metallic,) is far more abundant in England than in Spain, yet would the currencies of these two countries be at a par of value. So, if in England a guinea commands the services of one laborer for a week, in Spain it will command the services of three laborers for the same time; but in Spain the services of three laborers for a week are of the same value only with those of one laborer for the same time in England. No gain therefore could be made by sending a guinea from England to Spain, since, whether employed in the former country, or the latter, the result in point of profit is the same; nor, for a similar reason, would money be transmitted from Spain to England. It follows as a necessary consequence from this principle, that if the currencies of two or more countries should be at a par of value, and any change in the efficiency of labor in one or more of them, compared with the others, should take place, the effect of it would be to disturb the par of value previously established among them, and to lead to a new and different distribution of the precious metals. If, to take the former example of Spain and England, the labor of one Spaniard should become six times more efficient in the market of the world than before, and consequently twice as efficient as that of an Englishman, (there being no change supposed in the efficiency of labor in England,) the effect would be to produce a change in the relative quantities of the precious metals in their currencies; and supposing still the two countries to have an equal population and equal industry,

the currency of Spain would become double that of England, and six times as great as it was previous to the increased efficiency of her labor! Until the currency of Spain should become double that of England, money would be transmitted from England to Spain: for, in the case supposed, a guinea, or twenty-one shillings, or any other given quantity of gold or silver, is worth more in Spain than in England—will command labor, or services in the former country which in the market of the world are more valuable than those it can command in the latter. When the currency of Spain should become double that of England, there would then be again a par of value between the two countries. Money would cease to be sent from England to Spain, because then a guinea would again command labor, or services of equal value in either country: to wit, a week's labor of one laborer in England, and its equivalent of half a week's labor of a single laborer in Spain. If all the countries of the world were equal in point of population and industry, the relative effectiveness of the labor of each would determine its relative amount of income; and if income and currency are proportional (which they generally are), would determine also its relative amount of currency. But as countries differ very greatly in respect to population, the income, as well as the currency of each, compared with that of others, must depend upon number of population and effectiveness of labor combined. A double population and double effectiveness of labor would give a quadruple income and quadruple currency. A treble population and double effectiveness of labor, would give a sextuple income and sextuple currency, and

so on. In the preceding remarks I have endeavored to explain the principle upon which the precious metals distribute themselves among the different countries of the world; flowing to each country in greater or less abundance according to the amount of its effective demand; this demand depending, clearly, upon the estimation, or value set upon its products in the market of the world, and not (as would be the case in the long run where competition is supposed) upon the actual labor they may have cost. The less the labor that these products have cost, while their estimation or value in the market of the world continues unchanged, the cheaper will be all foreign commodities, and among these gold and silver, which they are made the means of purchasing.

CHAPTER XIII.

Money Wages of Labor in the United States, in Bengal, Russia, France, Italy.

Labor, in a country where gold and silver are thus cheaply purchased, will necessarily be dear when estimated in money; in other words, money wages will be high; as, upon the same principle, they will be low in those countries where gold and silver, having been purchased at the cost of a great deal of labor, or the product of it, will naturally, for that reason, be comparatively dear, and will therefore command a great deal of labor. Money wages are high in the United States, because from the cir-

cumstances of climate, soil, productions, &c., no less than from superior skill and knowledge—labor is highly effective in that country in the production of those commodities which in the market of the world are highly esteemed, and command a comparatively large quantity of foreign products, and among others gold and silver. If, in the progress of time, the products of American labor should, from the effects of foreign competition, or from the supply of them being greater in proportion to the demand, become depreciated in value, or bring a less price in gold and silver than they do at present, these metals must consequently (as well as other foreign products which do not themselves become cheaper from some cause connected with their production,) be purchased by America at a greater cost of labor, or of the product of it, than at present: and would therefore command a greater amount of it; which is the same thing as saying, that in such a case money wages in America would be lower than they are at the present time. The difference of money wages in different countries of the world is very remarkable. In Bengal, the rate of wages of ordinary labor is stated on good authority to be as low as 2½*d.*, while in Ireland it is 6 or 7*d.*, in England 20*d.*, and in the United States, taking the general average, considerably higher still. In Russia, wages are lower than in France, and in France and Italy, lower than in England. I am well aware that the amount of real wages, that is, of the food, clothing, and necessary comforts of the laborer, differs considerably in different countries from the influence of a variety of causes, the investigation of which would here be out of place. All that I contend for is, that

though there had been no such difference of real wages—though in all countries the laborer received the same quantity and quality of food, clothing, accommodation, and comforts, still he might receive very different amounts of money wages—that this difference of money wages would proceed from the greater abundance and cheapness of gold and silver in one country than another: and that the greater abundance and cheapness of these metals in one country than another, would be owing to the operation of the principle I have been endeavoring to explain.

CHAPTER XIV.

Distribution of the Precious Metals throughout the different parts of any one country.

It can scarcely be necessary to remark, that if this principle be true, in regard to different countries, it is not less so, in regard to different parts or districts of the same country, more especially where the latter is of great extent, and is likely therefore to embrace a variety of soil and climate, and various descriptions of industry and occupation. Such a country is the United States: and no one of any observation, and who at the same time has paid any attention to the subject, can fail to have remarked the great disparity in the value of gold and silver money in different parts of the country remotely situated from one another, and differing much in the nature of their industry. In the far interior of

the west, for example, where the products of industry are bulky, chiefly agricultural, and possess but little value in the market of the world, compared with the labor of their production, we must look to find money dear and scarce; and the fact will be found to correspond, unless I am greatly mistaken, with what our theory would lead us to expect. Anterior to the employment of steamboats upon the Mississippi, and the introduction of other facilities for transportation and in aid of internal trade, this dearness and scarcity of the precious metals in those remote regions must have been still more observable than they are at present. The comparative cheapness of money, on the other hand, in the rice and cotton growing portions of the States, is not less a matter of remark, than its dearness in those portions of the country of which I have just spoken; and the products of which, I have observed, possess, in the market of the world, but a small value, compared with the labor of their production. Rice and cotton, on the contrary, have generally had a comparatively high value, in the market of the world, in proportion to the labor of their production.

CHAPTER XV.

Southern States, and the Profits of the Master of Slaves.

It is obvious, that if the labor of the Southern States were applied exclusively to the raising of Indian corn and potatoes, instead of being, as it is, divided between these products, and cotton and rice;

that the surplus of the gross agricultural product of those States above their consumption—although the result of an equal amount of labor with that now employed in raising cotton and rice—would, nevertheless, be of very inferior value to that of those products in the market of the world; in other words—would exchange for a much less amount of foreign commodities, or of gold and silver—the standard commodities, with which all other descriptions may be always purchased. Rice and cotton are to Carolina, what manufactures are to England: and the swamps and cotton lands, and warm sun of the former, stand in the same relation, as advantages, to her, that skill, knowledge and machinery do to England. So long, therefore, as rice and cotton shall continue to command, in the market of the world, a higher value in proportion to the labor of producing them, than the corn and cattle of the west command, in proportion, also, to their cost in labor—so long will the abundance of money and foreign commodities be greater in those parts of the country where rice and cotton are raised, than in those which depend for their income upon corn, &c. We must not, however, overrate the advantages which, in this respect, the cotton and rice growing States possess over remote corn growing districts. If the slave, in the former, instead of the low remuneration which he receives at the hand of the planter, under the existing compulsory system, received such a rate of wages as would be established under a system of free labor, the profits of the master, undoubtedly, would be greatly diminished. But the change which, in such a case, would take place in the division of the gross product of labor, between the laborer and

the planter, or proprietor, is not, any more than the other changes in the condition of the country which under a new order of things might arise, the subject now in discussion. Yet supposing, under the free system, the same amount of labor, applied in the same way, as under the present one; and no change to take place, except in the division of the gross product between the laborer and the proprietor, or planter; the income of the country would remain unchanged in its amount, and consequently, too, the money or currency of the country, supposing this to be, as it usually is, proportional to the former. All that I pretend to assert is, that whenever in any country, or part of a country, from the effect of any cause, natural or artificial, gold and silver are obtained at a less cost of labor than in another country, or another part of the same country, they will, as a consequence of this, be more abundant in the former country, or part of a country, than in the latter; and that, notwithstanding this inequality in regard to the abundance of the precious metals, there would not, in consequence of it, be a transmission of them from the places where they were cheap, to those where they were dear. Their cheapness (in this sense of the term) is indeed that which causes their abundance, and could not, it is obvious, cause at once their abundance and their exportation, or transmission to foreign countries—which would be very much like asserting, that it would cause, at one and the same time, their exportation and their importation. *It must always be kept in mind, that the demand for the precious metals for the purposes of the currency, is a demand, not for quantity, but for value:* if, therefore, those metals, from being more

easily obtained in one country than another, are cheaper in the former than the latter, it follows, as a necessary consequence, that they must, too, be more abundant; their greater quantity, or volume, must make up for their inferiority in value.

In farther illustration of the same view of this subject, we will offer one other example: we will suppose a country, by some miracle, to be suddenly deprived of all the gold and silver it may have possessed, whether in the shape of currency, or manufactures; and that, through some freak of legislative folly, (a description of folly sufficiently common in the present day,) a heavy impost should then be laid upon the importation of those metals—an impost, say of 50 per cent.; and let us suppose it were possible, which, however, we are well aware it is not, that such a duty might be enforced: it is obvious, that whatever might have been, previous to the imposition of the duty, the relative value of the precious metals, compared with the products and labor of the country, with which they must be purchased, the effect of the impost of 50 per cent. must at once double that value. The importer of these metals cannot afford to carry on his trade, unless he receives for a given quantity of them at least twice as much of commodities and labor as he did before—unless he receives for fifty pounds of gold or silver bullion, as much of those commodities and labor as he before received for one hundred pounds. So long as the value of these metals continued thus high, or above this (as it would do until the country had imported its fair proportion of them), they would continue to flow in from foreign countries: but when the quantity of them imported rose to the

No - The things had risen in price not in value - The quantities necessary would be the same.

point of depressing their value below the double of what it was before the imposition of the duty, the importation must cease: now, if their value is double (or nearly so) of what it was previous to the duty, half (or nearly half) of the quantity would be sufficient to perform the same amount of business and exchanges; and for the same reason, viz., the duplication of the value of these metals, half as much of them would probably suffice, too, for their uses in the arts and manufactures. A country thus situated, then, it is clear, could retain only half the quantity of the precious metals which it had done previous to the imposition of the duty; or at all events, it could retain in its currency only half as much as it had previously done; and, with respect to the employment of gold and silver in the arts and manufactures, it seems almost certain that the diminution in the demand for them for this purpose, would be very nearly in the inverse ratio of their rise in value.

CHAPTER XVI.

Inequality in the value of the Currencies of different countries.

I HAVE already remarked, and I now repeat it, that the differences which may exist in value between the currencies of different countries, is not in the least incompatible with the fact of those currencies being at a par of exchange. Although the currency of England, or of the United States, for example, should be far more abundant and cheap, and consequently of less value (in the sense in which I have explained it),

than that of Russia, this circumstance would not prevent the currencies of the two countries first mentioned from being at a par of exchange with the currency of the last.

I have dwelt at some length upon this point, in relation to the inequality in value between the currencies of different countries, because, so far as I can discover, less attention has been drawn, by writers upon currency, to this part of the subject than, to me, its great importance appears to merit.

CHAPTER XVII.

Laws of Exchange and Balances and Bills of Exchange.

When, through the operation of the principles I have been endeavoring to explain, a par of exchange has established itself between the currencies of two countries, no transmission will then take place, of bullion, from one to the other; because, as is implied by the very term *par of value or exchange* (as it has been here explained), no such transmission *can* take place *without loss*. As in this condition of things no transmission of gold and silver could take place, commercial intercourse would necessarily be limited to the exchange of goods or commodities, as distinguished from the precious metals. In each country there are descriptions of commodities which are comparatively cheap *there*, and dear *abroad*, or of which the money price abroad is higher than at home; and sufficiently so to remunerate the exporter for the expense and trouble of transmission. A

merchant in New-York purchases, we will suppose, 10,000 dollars' worth of American goods, which he exports to England, and there disposes of for 12,000 dollars, making by the operation 20 per cent. upon his capital. If money is at par value between the two countries, 12,000 dollars are as valuable to him in England as they would be in America; and he certainly will not import his 12,000 in specie; for this he cannot do without loss. But suppose that at the moment of this commercial operation, a similar one, and to the same amount, is undertaken by an English exporter, who, in consequence, becomes the owner of 12,000 in America, it is obvious, that if a communication can be established between them, they may both receive what is due them, without the necessity of any money being transmitted from one country to the other: A, the American merchant, simply ordering his debt in England to be paid to B, the English merchant; and the latter, in turn, ordering his debt in America to be paid to A, the American merchant. Were there a thousand A's, American merchants, and a thousand B's, English merchants, similarly circumstanced, the result would be the same, except in point of amount: the debts in the two countries would mutually balance one another, and no transmission of the precious metals would take place. But it may so happen, that the debts are unequal in amount. The debts due from America to English exporters, may exceed in amount those due from England to American exporters. Suppose the debts due American merchants by England to be 12,000,000 dollars, (multiplying A's credit by 1000); and that due English merchants by America to be 12,012,000 dollars; (mul-

iplying B's credit by 100l): the American debtor merchants, it is clear, cannot discharge the debts due their English creditors, by buying up all the orders on English debtors, given by their American creditors, since the amount of the latter falls short of that of the former by 12,000 dollars. A balance then would remain due to England! And some have supposed that a balance thus created must necessarily lead to an exportation of money for the purpose of settlement; and that whenever a balance of debt occurs, it must necessarily give occasion to a rise in the price of orders, or bills of exchange. It strikes me, however, that both these opinions are erroneous; and if there be any truth in the principles I have been endeavoring to establish, the question whether a balance of debt due by one country to another would be exported in specie or not, would depend wholly upon the state of the exchange—upon the question whether money between the two countries were at a par of value or not. If the opinions I am controverting were well founded, then it would follow, that supposing one of two countries, whose currencies are at a par value to export an amount of goods to the other; the latter must necessarily discharge the debt thus incurred, by exporting an equal value in the shape of specie, or gold or silver bullion; which is manifestly absurd! *It is obvious that the balance supposed will be paid by the transmission of gold and silver in those cases only, where gold and silver are found to be the most advantageous remittance for the debtor:* that is, where the currency of the debtor country which owes the balance, is redundant: and that of the creditor country, to which it is due, is deficient—where the

former country has more currency than it wants, or has an efficient demand for, and the latter less—where, consequently, the currencies of the debtor and creditor countries do not stand in the relation of a par of value.

With respect to the rise in the price of what I have called "orders to pay," or what are commonly called bills of exchange, it must be easily perceived, that no such rise can take place, so long as it continues more advantageous to export goods in the payment of balances, than to export gold and silver—the competition to obtain bills of exchange arising from the anxiety to avoid the necessity of sending goods at a moment when they cannot be sent with profit; and to gain the advantage of paying debts, and having money abroad, without the expense and trouble of its transmission. The amount of bills of exchange to be bought, is less than the amount of debts to be paid, in those cases only, where goods cannot be transmitted with advantage; and therefore it is, that a rise in the price of bills is co-incident with a change in the relation in which the currency of a country stands, considered with respect to the currencies of foreign countries. A change in the relation from a par of value or exchange, to a redundancy of currency in the debtor, and relative deficiency in the creditor country, would prevent the balance of debt from being paid in goods—would occasion a rise in the price of bills of exchange, and would lead to the exportation of the precious metals.

CHAPTER XVIII.

A redundancy of the Currency.

SUCH a redundancy of currency might take place from various causes—the adoption of better methods for economizing the currency—the release of money and coin from the strong boxes and places of concealment in which during times of alarm they had been hoarded—the improvement in the administration of justice between man and man, and the greater security and confidence consequent upon it—the employment of government paper money—or, lastly, the introduction of bank notes payable on demand, as a substitute for gold and silver coin. Any of these causes, by producing a redundancy of the currency of the country beyond its required amount, would occasion a general rise of prices—a consequent depression in the value of the currency compared with commodities and labor, and ultimately, an exportation of a portion of the gold and silver composing it, to countries where the value of these metals was relatively higher. It can hardly be necessary to remind the reader, after what has been already said in the previous pages of this paper, that the redundancy of currency here spoken of, is not to be confounded with its abundance—the latter being the effect of the cheapness of the precious metals in any country, arising from the comparative efficiency of its labor; whereas the former is the cause of their cheapness—consisting as it does in a supply of them in the currency disproportionately great compared with the demand; for the demand

for the precious metals, for the uses of the currency, being as I have already remarked, a demand for *value*, and not *quantity*, it follows, that, should a currency which is of the required, or demanded value, be increased in quantity, by the influx of the precious metals and coin from abroad, or by the issue of notes payable on demand, or by any other similar means; and could the whole increased amount of it be forcibly kept in circulation, by preventing the efflux of any portion of it out of the country; the result would be, that the entire currency, thus increased in quantity, would be of no greater value than before, and that consequently, any given amount of it, would be of less value than before. The rule rigorously expressed would be, that the value of the currency, whatever its amount, or quantity, must always be limited to the value of the demand for it. Now, we have already shown, that in countries where gold and silver are cheap, in consequence of the efficiency of labor, the quantity, or volume of the currency must necessarily be enlarged; and that the deficiency of value will be counterbalanced by the increase of quantity. The amount of value demanded for the currency is in no degree increased, or diminished, by the greater cheapness or dearness of the precious metals. But the same rule does not hold good with respect to the demand for these metals, for the purpose of being employed in the arts and manufactures. The demand of England for the precious metals for the use of the currency, is for no greater value than it would have been, had England been obliged, under circumstances otherwise similar, to purchase those metals at three times the cost that she does. But the de-

mand which England makes for them for the purpose of the arts and manufactures, is probably not only for a greater quantity of them, but for a greater value than it would have been under the supposition of their being three times as dear. If corn should become twice as cheap in any country as it was before, the quantity of it demanded would be very little greater, if at all, than it was previous to the diminution of its cost; and the amount, or value of the demand for it (so to speak) would be very much less than it was, previous to the reduction of its cost. The case is not altogether the same with the precious metals. It seems probable that were a similar reduction of cost to take place with respect to them, many persons would be tempted to double their stock of plate and gold and silver ornaments; while others, and not a few, would become consumers of such luxuries, who before had regarded them as placed beyond their reach.

But, to return from this digression, to the question more immediately before us, I must repeat—as it is a point of great importance, and which should never be lost sight of—that the value of a currency, whatever its quantity, can never exceed for any length of time the value of the demand for it; and that the value of this demand is neither increased nor diminished by the cheapness or dearness of the precious metals. If these should be cheap, (as in England and America), more of them would be required; if dear (as in India and Russia), less, in order to supply any given demand of value, for the purposes of currency and circulation.

CHAPTER XIX.

Bank Notes and Paper Money.

But it will be said, perhaps, that the introduction of bank notes and paper money into the currency of a country, may have the effect of changing or modifying the operation of the laws and principles which govern the action of a currency purely metallic. Before replying to this observation, it will be proper to point out a distinction between "paper money" properly so called, and bank notes payable on demand, which, as we have before remarked, are not money, but promises, merely, to pay money. "Paper money" properly so called, is government paper, irredeemable, and deriving its whole value from being made a legal tender, or being receivable in payment of dues to government, or from both of these legal capacities. Mr. Storch says: "On reserve le nom de papier monnaie a des billets que le souverain ordonne de recevoir en payement a la place du numeraire metallique. Quelles que soient la forme et l'origine de ces billets, qu'ils promettent un remboursement, ou non, qu'ils soient emis par des particuliers, ou par le gouvernment; des que leur circulation n'est plus l'effet de la seule confiance, ils cessent d'etre des billets de confiance, et deviennent du papier-monnaie." Bank notes originally payable on demand, but of which the payment is suspended, and which government makes a legal tender, or makes receivable in payment of public dues and taxes, become through such interference on the part of government a species of paper money. Mr.

Storch tells us, that in Russia, forty millions of paper rubles were issued in 1769 by the government bank established in the preceding year. Although nominally redeemable in copper, Mr. Storch has shown that practically, the serubles were inconvertible. They were made legal tender, and further to insure their circulation, they were made receivable in payment of some portion of the public taxes. Through the effect of these regulations they become a species of inconvertible paper money; and their supply not having been originally excessive, and no additions to it having been made for about eighteen years, they continued, Mr. Storch tells us, during the whole of that period, to circulate at about the same value with silver rubles. Subsequently, an additional emission was made of sixty millions of these paper rubles, which had the effect of sinking their value eight per cent. below that of the silver ruble; and at length, in consequence of successive emissions, the whole circulation of this description of paper amounted to the immense sum of 577 millions, when their value fell to a discount of 400 per cent. This example conveys much instruction in relation to the subject of paper money. It shows conclusively that, so long as inconvertible paper-money which is a legal tender and receivable in payment of public dues, does not exceed in amount the debts and dues which by law it is made competent to discharge, it may continue to circulate on a par with gold and silver coin. It gives its owner no claim, it is true, to the possession of any material object, (such as gold or silver,) which itself has an intrinsic value; but it gives him the right, by the offer or tender of it to another, or by the transfer of it to

government, to hold himself exonerated from the obligation of a debt, or due, which must otherwise have been discharged by the payment of that which *has* an intrinsic value. While therefore the issue of it does not exceed the amount of such debts and dues, its value will suffer no depression, in comparison with that of gold and silver coin; but (as it would appear from the example cited, as well as from the obvious reason of the thing) no sooner does the issue exceed that amount, and paper money consequently lose the only competency which the law could give, than depreciation commences; and the more the issue exceeds that limit, the greater will be the corresponding depreciation.

It is obvious from this view of the nature of "paper money," properly so called, that, considered as a constituent part of the circulation of a country, it must be regarded not less than bank notes payable on demand, as entirely subordinate to gold and silver currency; and as deriving from its relation to that currency the only claim to value which it can ever possibly possess. The debts and taxes which it is made competent to discharge, are debts and taxes whose amount is ascertained and expressed in gold and silver coin; and which, if they had not by law been made payable in paper money, must have been discharged either in gold or silver coin, or in the equivalent amount of convertible bank notes.

The introduction of paper money and bank notes into the currency of a country has no other permanent effect whatever than that of lessening the amount of the precious metals in circulation. The demand for these metals for the purposes of currency in the country where the substitution takes place is, in a

greater or less degree, diminished: and the effect of this is, first, to raise prices generally throughout the country—to disturb, consequently, the par value previously established with foreign countries, and to cause, as an inevitable result of this, an exportation to them of some portion of the precious metals. Prices which were raised by the issue of bank notes and paper money will subside again, when, in consequence of the withdrawal from the currency and exportation of a portion of the gold and silver coin, the quantity of money has been reduced again to its original amount. As regards foreign countries, and the general demand for the precious metals throughout the world, the effect is exactly the same that it would have been had it been found possible, by economy and contrivance, to carry on the business and commerce of the country (where the substitution takes place) with a diminished amount of the precious metals, while prices continued unaltered. That is to say, the general demand for gold and silver would be somewhat less, and their average value, consequently, would be, also, somewhat less than it would have been, had the demand for these metals continued undiminished. The country making the substitution of paper money and bank notes in the currency, in the place of gold and silver coin, will have somewhat less of those metals in proportion to the value of her income: and the foreign countries, among whom the subtracted or exported currency is divided, will have somewhat more of them: but this will cause no change in the par of value between the former and the latter. The exportation of gold and silver from the former will continue only until the par of value is restored; after having been disturbed by

the high prices consequent upon the issue of paper money and bank notes; which, until a portion of the metallic currency was withdrawn, must necessarily have had the effect of increasing the whole mass of paper and metallic currency beyond the amount required for the business and commerce of the country.

CHAPTER XX.

Par of Exchange: how disturbed by the use of Bank Notes, Paper Money, &c.

The par of value between different countries depends, simply, upon each of them having the quantity of the precious metals which is in proportion to the value or the amount of its demand for them. If this is increased, the par of value is disturbed, and can be established again only by importation of those metals: if, on the other hand, it is diminished, the par of value is equally disturbed (as in the instance above supposed), and can be restored only by exporting the portion of those metals for which all *effective* demand has ceased. However small, therefore, the quantity of the metallic currency in one country, and however large in another, this would not prevent their currencies from being at a par of value, if the share of each was in proportion to the value of its demand.

We have already shown that where two countries, whose currencies are metallic, differ in the effectiveness of their labor; their currencies also will differ in quantity, in proportion to population,

ɔ labor, and to the amount and value of the busi-
ess and transactions which they are required espectively to perform—that supposing England and Spain to be of equal population, and the effectiveness of English to be threefold greater than that of Spanish labor, the currency of England must be hreefold greater in quantity, in order to its being ufficient to perform an equal amount and value of business and transactions; and that notwithstanding his disparity in quantity, or rather in consequence of it, the currencies of the two countries, thus differng in amount, would be at a par of value.

We will now suppose two countries, France and the United States for example, to have equal metallic currencies: say a million of dollars each, and a million of dollars more, each of them, in the shape of bullion, and that their currencies are at a par of value. Let us, then, suppose the latter country to introduce the paper money system—to issue bank notes payable on demand, which are as readily received as metallic currency of corresponding amounts. It is obvious that for every given amount of bank paper issued, a corresponding amount of the silver currency must become superfluous for the uses of the circulation; and (unless we suppose an increased demand at home for bullion) must either itself be exported, or must occasion an exportation of an equivalent portion of bullion.* Suppose the United States, then, to continue the issue of bank notes, until the amount of these shall have increased to the sum of 900,000 dollars, and shall have con-

* We here suppose *coin* to be of the same value with *bullion*, of equal weight and fineness, without any regard to the expense of coinage.

sequently displaced, and caused the exportation of 900,000 dollars of the silver currency. One thousand dollars only of the latter currency would remain in the country; but the currency of the United States would, nevertheless, be at a par of value with that of France. We have not thought it necessary to take into the above calculation the depreciation of value which the whole mass of the precious metals throughout the world must sustain, in consequence of the general demand for them having become less, and the consequent necessity that would exist in both countries for an increase in the nominal amount of their currencies. This consideration does not, in the smallest degree affect the truth of the principle I am endeavoring to illustrate; and though, upon the supposition of the United States and France being the only countries concerned, such a depreciation would be greatly felt, yet in the actual condition of things, the currency of any one country is so very small, compared with the whole mass of the precious metals throughout the world, that their depreciation of value arising from the above-mentioned cause, would be scarcely worthy of being taken into account.

Taking the same example, and following the same train of reasoning, it requires very little attention to perceive that, though the United States should continue to issue bank paper, (no restraint being imposed as to the denominations of coin represented) until the whole amount of silver coin was displaced by an equal amount of bank notes, the par of value of the currency compared with that of France would still be sustained, provided the bank paper should not exceed in amount the silver currency whose place

it has taken. But on the other hand, if the bank paper should exceed in amount the silver currency whose place it occupies, and whose value is that which the business and commerce of the country require for their transaction, it will then become depreciated in value below that of the coin which it nominally represents; and in a greater or less degree, in proportion as the excess is greater, or less. This depreciation would be perceived by a comparison between bank notes and silver bullion, the price of the latter rising in proportion as the nominal amount of the former was augmented. If we suppose the bank paper limited as to the denominations of it which are permitted to be issued, and that no notes are admitted into the circulation which are below a certain sum, say ten or five dollars, or one dollar, the effect of an over-issue of paper would be somewhat different. In this case, although the bank notes issued should exceed the amount necessary for that part of the circulation to which, by their denominations, they are confined, a portion of the silver coin would notwithstanding remain in circulation. The bank notes would in such a case be depreciated in proportion to the excess of the over-issue; but as *these* cannot perform the functions of the lower denominations of the currency, which are exclusively of silver coin, a portion of the latter would still continue in the circulation; nor would this portion of the currency be depreciated along with the bank notes, unless we suppose the latter convertible at will into silver coin; in which case the entire currency, both silver and bank paper, would undergo a depreciation; until through the withdrawal of a portion of the notes, and a reduc-

tion of the amount of the currency, prices were again lowered, and a par of value re-established with foreign countries. But should the banks, during the period of an over-issue of notes, suspend payment, their notes would at once be depreciated, as compared with both silver bullion and silver coin; and this would take place, notwithstanding the utmost confidence might be felt, both in the will and the power of the banks ultimately to redeem their notes. It would take place for the simple reason, that that portion of the currency which consists of bank notes, is larger in amount than the silver coin which would have circulated in its stead, had there been no paper; and as only a certain limited amount of *value* is called for by that part of the circulation which is occupied by the notes, if these exceed that value in nominal amount, their *real* will immediately cease to correspond with their *nominal* value. A ten dollar, or a hundred dollar note, would no longer be equal in real value to what it was before; and if this description of currency, like gold and silver, had a value in foreign countries and in the market of the world, like those metals, too, it would, under such circumstances, be exported, until, home prices being lowered, and the amount of the currency reduced, the par of value with foreign countries had been restored. But as bank notes have no value out of the country, and cannot consequently be exported, and as, in the case supposed, the banks refuse to redeem them, their amount will remain undiminished, and their depreciation continue, along with the cause which produced it.

CHAPTER XXI.

Bullion and Coin.

The price of bullion, as well as the prices of other commodities, would rise in proportion to the depreciation of the bank paper. An ounce of gold, or silver, would exchange for a larger nominal amount of bank notes than it had done before; and this would be true of a given weight of these metals, whether in the shape of coin or bullion. But the exchange between a country thus situated in respect to its currency, and foreign countries, although *nominally* against it, might in fact be at par, or even in its favor. Although the prices of commodities in bank notes are high compared with the money prices in foreign countries, the real prices in gold or silver coin may, on the other hand, be low, or only upon a par with foreign prices. The supply of the precious metals in the country supposed may be only proportioned to its demand for them; or it may even fall short of this; in other words, the amount of the precious metals which are required, whether for the uses of a portion of the circulation, or for employment in the arts and manufactures, may be such, that no profit can be made by exporting, or importing them; in which case there is a par of value; or the amount may be less than this, and a profit may be made by importing them, notwithstanding the high nominal, or bank note prices. On the other hand, if, during a period of redundancy of the currency of a country consisting of bank notes and coin, the banks should, after suspension of specie

payments, resume them, the effect would be, to place their notes again upon a footing with coin; but, as the currency is redundant, and prices higher than they would have been had the currency been at a par of value with that of foreign countries, there must consequently be a depreciation of the metallic portion of the currency, no less than of the bank notes, and there would therefore be a real depression of the exchange. There would not be, as in the former case, a rise in the price of bullion; and as the prices of all other commodities are really higher than if the currency had been at its proper amount, the exportation of these would be discouraged; while the importation of foreign commodities would be promoted; and bullion and coin be exported in exchange for them. Bullion can have no higher value than coin of an equal weight and purity. Whenever, therefore, any given amount of coin may be obtained in exchange for a similar nominal amount of bank paper, an equivalent amount of bullion may also be obtained; and if the paper and coin are depreciated in comparison to other commodities and labor, so also will bullion be depreciated; and the effect of such depreciation would be the exportation of bullion, or coin, or both, until the banks, having withdrawn the redundant part of the currency, had by so doing lowered prices and reduced the amount of their notes to the point necessary to restore the currency to a par of value with the currencies of foreign countries.

CHAPTER XXII.

Regulation of the Bank Note portion of the Currency.

From this view of the nature of a mixed currency of bank notes and coin, it is obvious, that when the paper portion of it fulfils the important condition of being always redeemable in coin, nothing is wanting to place such a currency upon a footing, in point of steadiness and uniformity of value, with one purely metallic, except that the bank note portion of it shall be so regulated as to correspond in amount with the gold and silver coin, of which it takes the place. In such wise to frame the laws made for the regulation of banking institutions, as to insure the country against the two opposite extremes of too great an extension, on the one hand, or too great a limitation, on the other, of their issues, is admitted to present one of the most difficult among the problems of modern legislation. I have already, in a former part of this paper, insisted at some length upon the essential importance of security being given by the banks for the redemption of their notes, with a view to the note-holders and public having a well grounded confidence in the soundness of their paper; which, in a country where the banking system prevails to any considerable extent, becomes, though not a *legal* tender, yet a tender *in fact*, and which, therefore, it is of the highest importance to keep on a level in value with the gold and silver coin which it professes to represent. This object I thought could be best and most effectually attained by the measure of obliging all banks to

afford in the manner proposed, security to the note-holders and public, to the full amount of the notes issued. But, as I have already had occasion to remark, it is not only necessary that notes, through the confidence of the public in their convertibility into coin, should be kept on a level in value with gold and silver coin; but further, that that gold and silver coin *itself* should not, through the too great expansion or contraction of bank issues, be depreciated or enhanced in value below or above the point at which, had the currency been wholly metallic, it would have been placed, through the operation of those laws which determine the relative amounts of the currencies of the different countries of the world. As the former object is attained through the confidence of the public in the convertibility of the notes; so the latter is brought about by the contraction or expansion of the bank issues, according to the state of the exchanges. Where the banks have been too lavish of their issues, or where, from any other cause connected with the course of trade, the currency has become *redundant*, the effect is immediately perceptible, as we have before remarked, in a real depression of the exchange. Prices, in such a case, would rise, just as they would have done had the redundant currency been purely metallic: and as in the case of a redundant *metallic* currency, the remedy of the evil is the exportation of the excess of currency beyond the amount for which there is an effectual demand; so in the case supposed, of a mixed currency of bank notes and coin; the contraction would be effected by a retiring of the superfluous notes and their conversion into coin, which, so long as the depression of the exchange continued, would be

exported; and thus, as in the case of a metallic currency, the *par of value* with foreign countries would be re-established; the mixed currency being lessened, so as to correspond in amount to the metallic currency, which would have been required had there been no notes or paper in circulation. On the other hand, where the banks have too much contracted their issues, or where, from any other cause, the currency has become *deficient*, the effect is immediately felt in an improvement of the exchange. As in the former case, prices *rise*, so in the latter they *fall*. The currency has risen in value compared with the currencies of foreign countries, and in order to re-establish the par of value between the former and the latter, the banks must enlarge their issues by discounting more freely; or in default of this, the metallic portion of the currency must be increased by importation of the precious metals and coinage. Prices having fallen at home, it becomes profitable to export produce and commodities to foreign countries, in order that they may find a better market. There will, therefore, be no want of bills drawn upon foreign debtors, which, consequently, will be comparatively cheap. Foreigners will owe the country more than the country owes them; and it will be found profitable for both parties, that the balance should be paid in gold and silver; unless the banks, by enlarging their issues, make this unnecessary, by supplying the deficiency of the currency with their notes; of which, while they continue to possess the confidence of the country, any given amount will always take the place of an equal amount of gold and silver coin. It is difficult to avoid the conclusion to which these considerations seem so clearly

to conduct us—viz., that so long as the banks comply with the condition of redeeming their notes in coin, it is impossible that the currency of the country should ever be very much in excess, or, consequently, very much depreciated below its par value, compared with the currencies of foreign countries. On the other hand, where banks, by giving security for the whole amount of their notes, have inspired the public and note-holders with an undoubted confidence in the soundness of the currency, they have done much towards the protection of the country against an evil which, as a cause of distress and monetary disorder, must unquestionably be regarded as by far the most terrible of the visitations incident to commerce—I mean *panics*. No calculation can be made in respect to the extent to which contractions of the currency arising from this cause may be carried; because there is no standard by which such contractions can be measured; unless, indeed, we call that a standard, which, of all things, is the most fluctuating and uncertain,—the hopes and fears of an excited multitude. But where this danger (of panics) is guarded against, (and I cannot help thinking that one of the most effectual means of guarding against it, is to be found in obliging the banks to give security in the manner proposed,) there would be but little reason to fear that the issues of the banks would often, in any material degree, fall short of the amount required for the circulation. The danger is usually on the other side. After all, it would be, perhaps, presumptuous to affirm, *that the measures of reform suggested in the course of these remarks would of themselves, and unaided by other and auxiliary restraints, be*

*ufficient to secure to the country a mixed currency, which should always correspond in amount and alue with the metallic one which must have been mployed in the circulation, had there been no banks, or bank paper.** Nor would it be much less pre-umptuous to pretend, that even with the aid of uch auxiliary restraints, this advantage might be ully attained. All that we can hope to accomplish nust (to say the best of it) be only an approximation o that standard; an object which all would readily dmit to be desirable. A mixed currency possesses, t is true, some advantages, in point of cheapness nd portability, over a currency purely metallic; but t labors, on the other hand, under great disadvan-ages in comparison with the latter, in respect to teadiness and invariableness of value. We have een in the foregoing pages that a metallic currency, when left to itself, is governed by the most unerring aws, and that the tendency and effect of these laws s (not unlike the tendency and effect of the princi-ple of gravitation in physics), to produce a general level of value (in the sense in which this expression has been herein explained) among the currencies of the different countries of the world; while at the same time, the currency of each country, with an unfailing certainty, adapts itself, both as to amount and value, so as to meet and satisfy the varying wants and exigencies to which time or accidental causes may give rise. Our aim, therefore, in attempting a reform of the existing currency should be, to combine, so far as it is possible to do so, the ad-

* For further views and other measures of reform, with the same object, the reader is referred to the second part of this work, (passim.)

vantages of the *metallic* with those of the *bank note system.* The chief, and almost only objection to the former, is its *expensiveness;* while the latter, though recommended by the opposite quality of *cheapness,* is subject, nevertheless, to the substantial objection of its *liability to be abused;* and of the great difficulty which the Legislature will be likely always to encounter, *of so framing their regulations for the government of banks, as to oblige them, while pursuing with a single eye their own selfish objects of gain, to act at the same time in accordance with the interests of the public and the country.* That they should thus act, under the present loose system of banking, is obviously not to be expected. It would indeed be no easy matter to demonstrate, that under this system, the interests of the banks and those of the public are *coincident;* and though we should admit as a general proposition that they *are,* and that it is of the utmost importance to the welfare and safety of the banks at large that the whole amount of bank paper in circulation should never be so great as to cause a depression of the exchange; it still would be quite vain, in general, to expect, that an appeal to such tests as these, however just and sound, should prevail in the case of any individual bank, in inducing it to put a restraint upon its issues.

PART II.

CHAPTER I.

The term "Currency"—Bank Notes—Commercial Notes—Legislative Interference and Regulation—Excessive Issues, &c.

In a former essay, I have assumed it as granted, that the only portion of the circulating medium which requires the special interposition of the legislative power for the purpose of regulation, is that which consists of notes or bills issued by banks, purporting to be payable on demand. I have not thought it necessary to discuss the question of "what constitutes the currency?" which I observe has exercised (though I confess I think very unprofitably) the ingenuity of some of our writers. The only questions of importance, in this connection, are—what portion of the general medium of exchange, by which the business of society is carried on, requires legislative regulation and restraint? and, further, what that regulation and restraint shall be? and in what manner they shall be exercised? The question "what constitutes the currency?" is merely technical; and

however answered, can in no way influence our conclusions, as regards the best plan for constituting banks, with the view of securing honesty and prudence in their management. The term "currency," very obviously implies readiness of circulation from hand to hand; and, therefore, as a general rule, those instruments for effecting exchanges, which are clogged with conditions of delayed payment—which do not promise payment on demand, must, strictly speaking, be excluded from being considered as coming under the denomination of "currency," properly so called. Therefore, we are told that the post notes of a bank, whether payable in six months, or a day only after demand, are equally excluded from being considered as currency—that deposits in a bank, if payable on demand, are "currency;" but, if payable six months, or a single day, after demand, (and, by parity of reason, a single hour,) they lose their character of currency—that bills of exchange, and promissory notes of merchants, which are not immediately convertible into cash, are no part of the currency. Now, this may all be very true; but do such nice distinctions serve any useful purpose? Is not the question of "what is currency?" in which ever way it may be settled, a question merely technical and verbal; and which can in no manner influence our reasonings, in relation to the expediency or inexpediency of legislative interposition, for the purpose of restraining and regulating the circulation of banks? It may, undoubtedly, be important to know, that some descriptions of paper circulation issued, or withdrawn, whether by government, or by banks, or by private individuals or companies, have a more immediate effect than others would have, in raising

or depressing prices; but it is of very little consequence to us, to be told exactly how many hours, or minutes, separate the paper which is not "currency" from that which is so; or, at what exact point of time paper begins to be currency, which, in its inception, was not currency. It may, too, be very convenient, and doubtless is so, to distinguish, in a general way, between that portion of the general medium of exchange which circulates rapidly, and that which circulates slowly—that which performs twenty exchanges in a week, and that which performs but one in six months. But it is evident that, if a distinction is to be made between that denomination of paper circulation which is payable on demand, and that which is payable in six months, there is equal reason for distinguishing between this latter denomination, and that which is payable in a week, or a day. There is, clearly, much less material difference between paper payable on demand, and that which is payable in a week, or a day, than there is between this latter description of paper, and that which is payable in six months or a year; and yet, according to the classification of some of our writers upon currency, paper, payable in the longest periods of time, as a year, or two years, and that payable in a week, or a day, belong to one denomination; while the latter, which, in fact, differs so little from paper payable on demand, is treated, notwithstanding, as if it belonged to a class of paper which had nothing whatever in common with it. The conclusion, to which this manner of viewing the subject conducts us, seems to be, either, that the question of "what is currency?" must be regarded as merely technical, or verbal; or, that the reply to this question does not

admit of that scientific precision and exactness of definition, which some writers have aimed at, or affected, who have treated of this subject. As a general rule, those things only can properly be regarded as "currency," which are usually employed as medium of exchange, in buying and selling, and purchases, and which, at the same time, are readily and currently received in the performance of such transactions, and in the payment and discharge of debts. For this reason, promissory notes, or other mercantile paper, payable at a very remote date, or at a very distant place, could not properly be considered as "currency." The remoteness of the period at which such instruments give any claim to the value which they purport to convey—and not less so the distance of the place at which they are payable—would naturally create a degree of uncertainty, in regard to their actual value, sufficient to prevent their being generally and currently acceptable. Add to which consideration, that of their amount (however certain its payment) being necessarily of less value at a distant date than when payable immediately on demand, and the consequent necessity of adjusting their actual present value, and we see abundant reason for the slowness with which such notes and instruments circulate, when compared with those of shorter dates, or which are payable on demand. We see, too, in the circumstances to which we have just adverted, the reason why notes payable at long dates would be unsuitable in the payment of small amounts, and the transaction of every day business. Large notes, whether payable on demand, or not, have a less rapid circulation than small ones. The transactions in which they are required are less nu-

merous, and the caution with which they are scrutinized, where the least doubt of their credit exists, is very naturally greater than in the case of notes of the lower denominations. For this reason, viz., the slowness and caution with which notes of the higher denomination circulate—there is little or no necessity for legislative interference, in putting any restraint upon their issue; whether this issue be by a bank, or by a private individual, or company; and whether the notes be of long dates, or payable on demand. Any given amount—a thousand dollars, for example—will find its way into the circulation of the country much more readily in the shape of one or of two dollar notes, than in that of two five hundred dollar notes, or of one note of a thousand dollars. If, therefore, there were no law restraining and regulating the issue of notes of the lower denominations, the public would be exposed to much inconvenience, either from the necessity, on the one hand, of using greater caution in the circulation of such notes, or, on the other, from the losses which would inevitably result from the absence of that caution. The same caution, when exercised in relation to the higher denominations of notes, occasions but little inconvenience; because, as we have already remarked, such notes circulate, of necessity, more slowly—are employed only in the more important money transactions, and afford time and opportunity for all the required scrutiny, without causing any delay beyond what belongs to the nature of all the larger and more considerable transactions of business. If, by legislative enactment, no notes were permitted to be issued, whether payable on demand, or at a future date, except such as were of, or above a cer-

tain high denomination, say one hundred dollars, there would be but little necessity, with a view to the securing a sound and comparatively steady currency, for any further regulation or restraint; especially if, at the same time, the parties, or banking companies issuing notes, were excluded from the advantage (which they now generally enjoy) of a merely adventitious, and often fraudulent credit, founded upon a supposed connection with government, and sanctioned and countenanced by its acts and authority. The business of making and issuing the higher denominations of notes, whether of short or long dates, may, without danger, be left comparatively free and unrestricted; and whether the issue of such notes be made by banks, chartered or unchartered, or by private individuals.

These considerations led me to assume, in the first part of this essay, that the only portion of the general medium of exchange, which more especially called for legislative regulation and restraint, was that which consisted of the paper currency of banks; in other words, of the notes or bills of banks usually payable to bearer on demand.

I by no means would intend it to be understood (as will easily be seen from what I have already said) that the notes or bills of banks payable on demand, and gold and silver coins in circulation, are exclusively to be considered as constituting "currency,"

On the contrary, I have endeavored, at some length, to show that the term "currency" is far from being so definite in its meaning as some of our writers would appear to consider it. I repeat that, unless we tie ourselves down to making merely verbal distinctions, and affect a scientific and technical

precision which belongs not to the subject, we shall be compelled to allow many instruments of exchange to be considered as coming within the term "currency," which, if the writers alluded to were correct in their opinions, could have no claim whatever to be so considered.

Mr. Hodgskin, in his very clever treatise, "Popular Political Economy," tells us that "those who received promissory notes, or held bills not yet due, might require to make purchases and payments when they had no money. In this case they would make over the notes or bills to their creditors, pledging their credit, as the credit of the issuers of the promissory notes, or of the acceptors of the bill, was already pledged for its payment; and thus both promissory notes and bills of a long date would pass through many hands, and be the means of making many payments before they were finally discharged." A little further on, speaking of such bills, he says, "they were in the vast majority of cases duly honored, and thus they came to be considered as of equal value to the money they were to entitle the holder to receive at a certain time or place. As long as they are so considered, and as long as they are in circulation, or passing from hand to hand, they perform all the functions of money." "Bills of exchange," says Mr. Burgess, "have long ceased to be merely an instrument of commerce, to render perfect a mercantile transaction between country and country, and internal bills have become gradually more and more a part of our circulation; they have ceased to be so currently used by the manufacturers in payment of small sums under ten pounds, as they were thirty or forty years ago, owing to the high

rates of stamps upon small sums. Bills above the value of ten pounds form now as completely a part of the currency as bank of England notes. They are used to pay for minerals—for all kinds of raw produce used in manufactures—for all the principal articles of food or clothing, and recently, in some cases, for mere labor. If a butcher, in the north of England, buys cattle, he pays for them partly in these bills, and partly in country bank notes. If a miller buys corn, or a mealman or a baker, flour, he does the same. If a Yorkshire wool-buyer purchase wool of the farmers in the country, or in Northumberland, or in Lincolnshire, he pays for it partly in these bills, partly in country bank notes, or sometimes wholly in one kind, and sometimes wholly in the other. In the manufacturing districts of Yorkshire and Lancashire, no man, generally speaking, thinks of paying for any commodities above the value of ten pounds, otherwise than by a bill after date. This practice is now very general through the northern and midland counties, and is increasing in other parts."* "A bill at three months is considered in Lancashire and part of Yorkshire, which, as regards bills, is almost half the kingdom, to be a money payment."† "Mr. Burgess then proceeds," says Mr. Hodgskin, "to make some conjectures as to the amount of such bills which are continually in circulation. The data on which he proceeds seem worthy of confidence, and he concludes that the amount of such bills, continually in circulation, continually performing the functions of money, is not less than

* A Letter to the Right Hon. G. Canning, &c., &c. By Henry Burgess, Esq.

† Ibid. page 24.

three hundred millions sterling. Whether this statement be strictly accurate or not, it cannot be doubted, by any man in the least conversant with the present mode of managing business, that bills and promissory notes issued and circulated by manufacturers, merchants and traders, do, at present, constitute by far the greater part of the circulating medium, understanding by that, the instrument used for buying and selling, of this commercial and enterprising country."

It is very evident, therefore, that whether we call such instruments of exchange "currency," or not, they perform a most important part in the circulation of England; and it can scarcely be necessary to add, that they perform an equally important one in this country, where the modes of managing business are so similar to those prevailing in the former country. The use of such instruments in effecting exchanges, saves a great deal of expense in gold and silver coin and bullion, which, if these cheap instruments were not employed, must have been substituted in their stead. The invention and introduction, therefore, of promissory notes and bills of merchants and manufacturers, though not payable on demand, would drive out of the circulation gold and silver coin and bullion, in the same way, and for the same reason, that bank notes and bills payable on demand, would drive them out. Expansions and contractions of the currency, consequently, may take place from the use, or disuse of such instruments, as well as from the use, or disuse of the ordinary notes and bills of banks. From this, it may easily be understood, that if, in the first part of this essay, we did not think it necessary, in considering the question of currency, to call attention

particularly to mercantile paper—such as promissory notes and bills of long date—it was not because we were not aware of the great importance of such paper in performing the functions of a medium of exchange; but because we did not consider it a subject proper for legislative regulation. If the notes and bills of banks were always for large amounts; if they were issued, like mercantile promissory notes, in payment of *bona fide* dues for goods or value actually received, and were regularly redeemed and paid at a certain and stated period; if they passed by indorsement—had a limited circulation, extending only to those cognizant of the parties issuing, or indorsing the notes—if they circulated, as all large notes must, slowly, and derived no adventitious credit from the sanction of public authority, (implied in the fact of their being issued by banks, licensed or established by government, we should regard them, as not any more the proper subject of legislative regulation, than we do the promissory notes and bills of manufacturers and merchants. The great danger to be guarded against, it must be kept in mind, (where we suppose honesty and good faith sufficiently secured on the part of the makers of notes,) is, that the issue of them may, from the selfish and interested motives of their issuers, be larger or smaller than the business and transactions of the country require; and, as contractions of the currency seldom take place, except in consequence of previous too great expansions of it, we may justly consider the latter, that is, too great expansions of it, as the chief evil to be guarded against. Would this evil, we will then ask, exist, if the notes and bills of banks were issued on the

same principle, and on the same conditions, upon which the promissory notes and bills of merchants and manufacturers are issued? In other words, (or in effect the question is the same,) could the evil of a redundant currency occur, if there were no bank notes—no notes in circulation except promissory notes of traders and dealers, and mercantile paper payable at fixed and stated periods?* or, (to vary still the same question,) is there any reason to apprehend, (there being supposed no banks,) that manufacturers and merchants giving promissory

* Although there are other descriptions of business paper besides bank notes, which are payable to bearer on demand, yet it is certain that the amount of property lent upon promissory notes, payable at some definite and certain period after date, is infinitely greater in commercial countries than that lent in every other way. This description of business and commercial paper, therefore, is by far the most important one. With respect to the first, or promissory notes, payable to bearer on demand, it may be remarked, that when this description of paper is issued by private individuals, it may, like bank paper, become the proper subject of legislative restraint and regulation. A private individual who has extensive credit, might, like a bank, if the law allowed it, discount notes to a large amount by the issue of his own promissory notes payable on demand; and by keeping such notes for an indefinite time in circulation, might realize a large profit. Such a person would thus become a banker; and, as he would be liable in the whole amount of his property for the payment of his notes, the public would possess a better security for the redemption of such notes of his as they might hold, than they do for bank paper under the present system of limited liability. The unlimited liability to which such a banker would be subjected, would operate as a powerful restraint upon imprudent and excessive issues. For a further discussion of this point, see some of the subsequent pages of this paper. We may add here, that the tendency of bank paper to be issued in excess, arising from the circumstance of the indefiniteness of the period of its redemption and payment, does not belong to those classes of paper credit which come under the head of bonds and mortgages, any more than it does to commercial paper payable at fixed and definite periods after date.

notes to their creditors, payable at stated periods, and as securities for the payment of debts due for goods or materials received, may issue a larger amount of such notes than are required by the business and transactions of the country; and consequently occasion a fall in the value of their notes, and a derangement of the currency? These notes, it must be recollected, are not generally payable on demand, and usually, not until some time after date. It may, therefore, happen in consequence of some cause or other—a change, for example, in the state of the exchange with foreign countries—that gold and silver coin may come to be in great demand for the purpose of exportation—a purpose to which the notes supposed are inapplicable. In such a case, it is obvious that gold and silver coin would rise in value compared to the notes; or, which is the same thing differently expressed, that the notes would exchange for a less sum of ready money. The holders of such notes would be willing to take in exchange for them a somewhat less price in coin than they would have done, had no enhancement taken place in the value of gold and silver in consequence of the increased demand for them for exportation. The very same effect would take place upon the first introduction of mercantile paper as a part of the circulating medium. The mercantile paper would take the place of a portion of the gold and silver currency. It would increase the whole nominal amount of the circulation, which would consequently be more or less depreciated; and this depreciation would be followed by the efflux to foreign countries, of some portion of the metallic part of the circulation, which, now, would have a

greater value abroad than at home. It cannot be denied, therefore, that promissory notes and bills of merchants and manufacturers, particularly such as are of long dates, may, under certain circumstances, suffer a depreciation of value compared with gold and silver; and, that while taking the place of gold and silver as their substitutes in the circulation, they will cause a temporary rise in the prices of commodities generally; and, as a consequence of this, an exportation of a portion of those metals. In what then, it may be asked, do these mercantile notes differ from bank notes? and why are they not, equally with the latter, a proper subject for legislative regulation? I answer, because the merchant, or manufacturer, who gives a note payable at a fixed and definite period, unless we suppose him a very weak man, as well as a very dishonest one, can never calculate upon using what does not belong to him for a longer period than that fixed for the payment of his note. He can have no temptation, therefore, to give more notes than there is every reason to believe it will be in his power to redeem at the stated period of their maturity. Whatever the amount of the notes which he has given, and is responsible for, and however large the amount of the property of others which he has got into his possession, he is bound, by the strongest motives of interest, to provide for the redemption of his notes at the fixed period of their maturity; in other words, to return into the hands of its true owners the property (or its equivalent) which he had received, on the condition of its being a loan for a certain limited period. In the mean time, by the judicious employment and use of such property,

he has, it may be supposed, increased its value, so as to be enabled to retain, after repayment of the original amount received, a surplus, or profit. The case of a bank is somewhat different. A bank, it is true, issues its notes, receives the property of others into its hands, and is supposed to employ this property judiciously, with a view to its increase. It even promises to pay its notes immediately upon demand, which is more than the manufacturer or merchant usually does; in other words, it promises, and is bound to return at once upon demand—making only the deduction of discount—the value of the property to which the note discounted has given it a claim. But, although upon demand, the bank is bound to make prompt payment of its notes, there is always room left it to hope, that the demand will not be made; or, at least, that it will be indefinitely deferred. Now, upon this indefinite postponement of the period of being called upon for the payment of its debts, and to return to their true owners the amounts of property it has accumulated in its hands, rests its chief hope of increasing its profits. We see, therefore, the strong temptation to which banks must always be exposed, of increasing the number and amounts of their notes. The greater the number and amount of the notes which a bank has in circulation, the greater is the amount of the property of others which it has in its possession and employment. And, the less reason it has to fear being called upon to pay up its notes—the less definite and certain the period when there is any probability of its being so called upon to redeem them, the less caution will it use in the issue of them—and the less care will it think itself obliged

to take in the administration and employment of its funds, with a view to the ultimate settlement of its debts and balances. It is not less true of banks than of individuals, that too extended a credit is often the cause of their ruin, by tempting them to contract engagements, which in the end they are found unable to fulfil. The failure of a merchant or manufacturer, like that of a bank of issue, is attended with loss to a greater or less portion of the community to which he belongs. Those who have the misfortune to have taken his promissory notes and bills will find, that they have so much worthless paper in their hands. So, in the case of a bank of issue, whose notes, upon its failure, are in the hands of the holders and public but so much waste paper. But the difference between the two cases is this, that while in that of the merchant or manufacturer the holders of notes have taken them with their eyes open, and with the option of taking or refusing them, as they might see fit or expedient—in that of the bank, on the other hand, they have enjoyed no such privilege of choice. The holders of notes, in the latter case, are compelled, by the necessity of using currency, to take such notes as are offered, and can exercise no option in the matter without incurring a very serious inconvenience and loss. The notes of the merchant or manufacturer are for large amounts. The slow circulation of such notes is no inconvenience, and occasions no loss. The holder has an opportunity, therefore, before accepting, of considering how far, without incurring risk, he can rely upon the credit of the drawers of such notes. If he accepts them, it is because he feels satisfied that he may do so without danger. Each

holder of such notes, whether he has received them from the original drawer, or from an indorser, is enabled, by the exercise of his own judgment and discretion, to protect himself against the chances of their turning out to be worthless. Bank notes, if of large amount, require, as we have already remarked, scarcely any more restraint or regulation than private mercantile notes. It is not absolutely necessary for the public convenience that such notes should pass rapidly, and without examination or scrutiny, any more than it is that mercantile notes should. Large notes, whether issued by a bank, or a merchant or manufacturer, will not pass from hand to hand without examination; and banks will find it difficult to keep out such notes in the circulation, where any doubt, even the slightest, exists, of their solidity. For this reason, if none but notes for large sums were permitted to be issued by banks, the temptation now offered these institutions to issue a disproportionate amount of notes, and to get into their possession a larger amount of the property of others than they can be certain of being able to invest profitably, and return faithfully to its right owners, would be effectually taken away; and very little, if any, further regulation would be found necessary. The prohibition, therefore, of the issue of notes of the lower denominations would have a tendency to confine the business of note-making to the hands of the more respectable and trustworthy classes of men of business. The wild speculations, and visionary hopes of fortune, which are encouraged and fostered by the facilities now offered by banks, for obtaining unlimited amounts of notes, would by this means

be checked; and the violent convulsions of the monetary system, resulting from the disappointment of such hopes and speculations, would be happily avoided. It is true, as we have often had occasion to observe, that where a depreciation of the whole amount of mixed currency takes place, a demand will always be made for gold and silver, and the true standard be restored; but, it not unfrequently happens, that through the great facilities afforded by banks to speculators for obtaining unlimited amounts of money, (or what passes for it,) hopes are excited, and speculations undertaken, which, had not such aid been offered, would never have been thought of. So long as the hopes continue, and the projects and speculations are kept on foot, the enlargement of the volume of the currency is unfelt—no demand is made for gold and silver in exchange for bank notes—no exportation of these metals takes place, and no symptom of the real condition of the currency appears in any alteration of the exchange with foreign countries; for, so long as the hopes excited continue, and the projects and speculations engaged in appear to promise well, the increase in the amount of the currency is, in fact, demanded—there is, therefore, in reality, no inflation of the currency, and consequently no depreciation of it. It is only after the bubble has burst—when the glittering visions of hope have passed away—when the soberness of thought has succeeded to the intoxication of fancy, and the delusions of an overwrought and excited imagination have given place to the hard reality of loss and disappointment—it is then only that the discovery is made, of the true condition of the currency and

exchange. It is then, at length, discovered that—a great change having taken place in the business and industry of the country, and many important and extensive speculations having failed, which were carried on by means of the facilities afforded by banks—there is not the same demand for money, or its representative, that there was during the period of apparent prosperity. The consequences of this state of things would be immediately apparent, in the depreciation of the entire currency, and in the exportation which would follow, of the precious metals, to foreign countries. There is probably no better illustration to be found of the condition of things here described, than that afforded in this country, by the speculations in cotton, which at different periods, it is well known, have exercised so important an influence over the currency and exchanges of the country.

While the price of cotton wool in England—our chief customer—was high, and hopes were confidently entertained that it would continue so, or would even rise still higher; large purchases were made of land and negroes, with a view to the production of that article. Capital and labor which had been employed in the growth of Indian corn, rice, and tobacco, were now suddenly withdrawn from those employments, and applied to the cultivation of cotton. If this had been all, and no change had taken place in the amount and volume of the currency, the only effects resulting would have been, a relative difference in the quantities of cotton, corn, rice, and tobacco, which would have been produced for the market—a change greater or less in the relative market price of these commodities, and a gene-

real depression of the prices of all commodities, caused by the increase which will generally take place in the industry and activity of a community, whenever any new and profitable mode of employing labor and capital has been thrown open; and by the increased demand for money, which would, in consequence, be made, for the purpose of carrying on that increased and increasing business. If, under such a condition of things, the banks had issued only the amount of notes necessary to meet the increased and increasing demand, the prices of commodities, generally, would have undergone no change; or, which is the same thing, no depreciation of the currency would have taken place, and no exportation consequently have been made of the precious metals; and this prosperous state of things would have lasted so long as the price of cotton continued high, and a good market was found for the increased quantity of it now produced. But if, on the other hand, the price of that article should fall, and the market for it become depressed; if, in consequence of this, many speculations should fail—many hopes be abandoned, and much labor and capital become unproductive—the effect of this altered condition of things would be, (in accordance with the principles we have been endeavoring to explain,) a depreciation of the entire amount of mixed currency; and, as a consequence of this, an exportation of some portion of the metallic part of it to foreign countries. Under the most favorable supposition, therefore, that we can make, with respect to the conduct of banks, we still perceive, that a loss of profits, a depression of business and industry, a relaxation in the demand for bank notes, or the means of domestic circulation;

and on the other hand, an increase in the demand for gold and silver, or the means of making foreign purchases, will inevitably attend any considerable fall in the price of cotton; in the production, preparation, and transportation of which, so large an amount of labor and capital is employed. It can be no matter of wonder, therefore, that in the actual circumstances of the case to which we have called attention, the embarrassments which followed upon a fall in the price of cotton should have been of a character the most disastrous. The banks did not, in fact, in this case, exercise that moderation in their issues, which, in the former one, we supposed them to do. On the contrary, their conduct throughout, with few exceptions, was characterized, as under so vicious a system of banking as ours it might well have been expected to be, by the greatest imprudence—in many cases, by a most culpable and even criminal recklessness; and, in not a few, by an almost total abandonment of the principles and even appearances of common honesty and fair dealing towards their creditors and the public. The banks, like private speculators, were seduced by the hope of gain; and, on the part of the banks, this gain was to be made by issuing and keeping in circulation as many of their notes as possible. The banks, at the same time, unlike private speculators, were not restrained in the amount of their issues by the necessity of regular and periodical payments; and were, therefore, more easily led into the commission of the greatest imprudences. Instead, therefore, of issuing only that amount of notes which would have been sufficient, merely for supplying the increase in the demand for money occasioned by

the stimulus to industry, and business proceeding from excited hopes of gain, they were led, by the desire of sharing in the general prosperity, to exceed that moderate limit; and by this means, caused a general rise of prices, and a depreciation of currency, even before it was discovered by speculators and purchasers, that the price of cotton was not likely to realize the sanguine hopes of profit on which they had relied. When, at length, this discovery was made, the dismay attending it may be easily imagined. The speculators, who had borrowed the paper currency of the banks, disappointed in their schemes of brilliant fortune, were unable to repay, when called upon, the sums which had been loaned them. The banks, their creditors, whose capital, and the greater part of the proceeds of whose discounted mercantile notes had been dissipated in profitless and ill-advised loans, were thus deprived of the means of meeting the demands which were now made upon them by the note-holders; while the latter, unable to obtain gold and silver at the banks, were compelled (where they paid their debts at all) to pay them in bank notes at a depreciated valuation; and were subjected consequently to a loss—greater or less, according as the degree of depreciation was greater or less, which the notes had undergone. Thus, in this, as in other cases, the banks, seduced by an inordinate love of gain, and unrestrained by the necessity of regular and periodical payments; hoping and endeavoring, constantly, to increase the amount of their issues; and, by profuse and indiscriminate loans (particularly during a period of apparent prosperity) encouraging and fostering the wild and visionary schemes,

and commercial gambling of thriftless speculators—drawing off at the same time the capital and labor of the country from the regular employments of industry, and leading them into channels new and untried, and, but too often, hazardous and uncertain—it is in this way (I repeat) that banks, instead of affording (as under good regulation they ought and are fitted to do) the most important aid and facilities to commerce and the transaction of business, become the prolific source of the greatest disorders; and contribute (I may venture to say) as much to unsettle the rights of property—to relax and weaken the sense of morality, and to discourage and disturb the regular pursuits of industry, as is often done by the violence of war, or of political or civil convulsions.

From the foregoing example it appears, that in the industrial and commercial history of a nation, conjunctures may sometimes arise, when, in consequence of a strong direction having been given to the minds of men towards some important branch or branches of domestic industry, the banks have been enabled to make a larger issue of their notes than, under other circumstances, the circulation would have absorbed; and that if, in this condition of things, a sudden check be given to such branch or branches of domestic industry, and the demand for bank note currency be consequently lessened, the unavoidable effect must be a sudden and violent depreciation of the entire mixed currency—a rejection upon the banks of the superfluous portion of their issue—followed, where the banks are enabled to meet their engagements, by a distressing and stringent contraction of the currency, and a fall of prices; and, where they are not, by consequences

still more deplorable—the bankruptcy and ruin, often, not only of the banks themselves, but of a large portion of the trading and commercial community. Banks, therefore, it would appear, may, under particular circumstances, and from miscalculation and overweening confidence on their part, and that of their customers, make a larger issue of their notes than is called for by the actual condition and business of the country, *without its being perceived, for some time, from any sensible alteration in the state of the foreign exchange.*

The general rule, then, that the state of the foreign exchange is an index of the currency, and shows it either redundant or deficient, admits, under peculiar circumstances, of exceptions. That rule is founded upon the supposition—not often an incorrect one—that capital and labor, in civilized and industrious communities, are, in the main, wisely and judiciously employed. That they are not always so, is more frequently the consequence of a loose and vicious system of banking, than of any other cause. If speculators and commercial adventurers encountered greater difficulties than they have hitherto done, in obtaining loans without giving any sufficient security, the capital of the country, and fund which goes to the maintenance of its labor, would be kept in more judicious and prudent (not to say more honest) hands; and would be less likely than they are, under the present system, to be squandered away upon visionary schemes; whose failure, which, sooner or later, must inevitably arrive, is always attended with greater or less evil to the interests of industry, and frequently, as we have but too good

reason to know from experience, with consequences the most deplorable.

After what we have now said, we think it must appear that we were fully justified in assuming, as we did in the former part of this essay, that the only portion of the circulation, or medium of exchange, which required legislative interference and regulation, was that which consisted of the bills and notes of banks of issue. We have endeavored to show that the essential point of difference between the notes of a bank and those of a merchant or trader, consists in this: that the notes of a bank are payable at an indefinite period; while those of a merchant or trader (which constitute mercantile paper) are payable at a period fixed and certain. We have endeavored, too, to show that this difference between mercantile and bank paper is one of great importance, and leads to important differences in the effects produced by these two descriptions of paper, when left unrestrained by legislative regulation;—that while private, or mercantile paper, is, by the necessity which exists for its payment at a given and fixed period, kept within moderate and reasonable limits, bank paper, on the contrary, is tempted constantly to exceed those limits; because, not being payable at any definite and fixed period, no such restraint exists—and the banks issuing such paper, prompted by the desire of gain, naturally seek to increase the amount of their issue, and to keep it from returning upon them for redemption for the longest period possible.

It may be objected that mercantile notes, although for the reason stated, not liable, like bank notes, to be issued in excess, may yet be issued for inconveniently small amounts, or inconveniently long dates;

and may, therefore, require, for the purpose of preventing this, the interposition of the legislative power. I reply that, in my opinion, it is quite impossible that any such abuse can ever exist. It is only necessary, in order to be convinced of this, to reflect that private and mercantile paper must generally* pass by endorsement—that it can, in no other way, obtain any considerable circulation; and that it is highly improbable that very small private notes, not payable on demand, but only at a fixed, and perhaps remote period, and which are encumbered with the necessity of endorsement, should ever, except under very peculiar circumstances, come to form any considerable part of the circulating medium. Such a description of currency, it is obvious, must necessarily fall by its own weight. I cannot, therefore, think that there is any solidity in the objection, and shall assume it as established that bank notes—that is, notes payable on demand, without endorsement, but at an indefinite and uncertain period—are alone the proper objects of legislative regulation and restraint.

CHAPTER II.

Remedies of the Evil of Over-Issues—Expense of suppressing entirely both Bank Notes and Bank Credits—Expense of raising the Minimum Denomination of Bank Issues—To what extent it is desirable to suppress Bank Issues—What the expense of this remedy.

THE question then arises as to the mode of regulation, the manner in which the restraint shall be

* There are some exceptions, as in the case of checks.

imposed, the measures which shall be adopted in order to effect the object which we have in view—viz., the preventing bank notes payable on demand, but at an indefinite and uncertain period, from being issued in excess; that is, in amounts which exceed the wholesome and natural demand, and produce, first, a general rise of prices and expansion of the currency, accompanied by an increased importation of foreign goods; and, secondly, by what is usually called an unfavorable exchange with foreign countries—an exportation to them of specie or of gold and silver bullion; and lastly, by a contraction of the currency—a serious evil at all times, but which, when following close upon a previous expansion of the currency and high prices, becomes productive, in a more than ordinary degree, of injury, to the highest and most vital interests of society—the support of justice—the maintenance of order, and the preservation of a general soundness and wholesomeness of moral sense, in the ordinary transactions of business and commerce. The answers to this question will best be found, we think, by referring to what has been said above, in regard to those features of the present system of banking, which, to us, appeared to be the chief causes of the evil complained of—the low denominations of the notes permitted to be issued—the facility with which, from this cause, banks are enabled to obtain a circulation for their notes—the temptation held out to them by this facility to make excessive issues, and the absence of that restraint, which, in the case of mercantile paper, is imposed by the necessity of repayment at a given and fixed period. Now, the uncertainty and indefiniteness of the period of redemption is, in the case

of bank paper, a condition essential and inseparable from it; but the amount or denomination of the notes permitted to be issued, is a matter which may be varied without changing in any way essentially, the nature and properties of that description of paper. We propose, therefore, that the denominations of bank notes permitted to be issued should be raised—that all bank notes which fall below a certain high denomination be prohibited—that that enormous and unnecessary mass of notes of low denominations which now disgrace the currency of this country—which are not at all more convenient for use than the gold and silver coins, driven out and displaced from the circulation in order to make room for them, were; and which, by their greater cheapness offer no compensating advantages for the manifold evils which result from the use of them, should by some gradual, but effective process, be entirely and totally abolished. To decide upon what ought to be the minimum denomination of notes is not a matter of any serious consequence, provided the denomination adopted as the minimum be sufficiently high. There is little probability that in this country the denomination adopted should ever be too high; the only fear is, that it may never be raised sufficiently high to give efficacy to the reform proposed. It may possibly be objected, that by raising the minimum denomination too high, we frustrate the useful purposes for which banks were established. We answer, that we think not. Our reform reaches only to banks of issue. It does not, in any manner, affect or lessen the utility of banks of discount and deposit. The great importance of the latter, and their great utility in affording security and facility in the transac-

tion of all sorts of commercial business, are not in any degree diminished by the limitation we propose in relation to the denominations of bank notes legally issuable. The banks of issue, therefore, which may happen also to be banks of discount and deposit, would retain to the fullest extent, in their latter capacities of discount and deposit, all the utility which belonged to them previous to the limitation of their issues. Checks, drafts payable on demand, and which must be presented for payment within a reasonable time, and bills of exchange, and promissory notes promising to pay a certain sum at a certain time, would be, as usual, the instruments employed for transacting the business of dealers and merchants, and for settling their accounts with one another; and the only difference that could result from the proposed reform would be, that the small balances which are now paid in bank notes, would, under the new system, be discharged by the payment of gold and silver coin; and that, as between dealers and consumers too, all daily transactions which are not made the subject of ledger entries, would be carried on by means of coin, instead of the notes of banks. This, in my opinion, so far from being a disadvantage, would be a great improvement; and would be regretted, I believe, by none except those who, in some way or other, directly or indirectly, either personally, or on account of relations or friends; or from a wish to reward political supporters and partisans; or from some other similar motive, might happen to be interested in preventing the adoption of a system, which, although it would not entirely take away, must yet very much limit and confine the facilities and opportunities now constantly afforded

them for making successful operations of speculation, gambling, and jobbing in bank stocks and other descriptions; by which they are enabled to appropriate to their own use the gains and hard earnings of honest and industrious mechanics and tradesmen; or, perhaps, (which is still worse,) the little pittance of independence which has been left by such persons to their widows and orphans.

It may be objected indeed that such a change cannot be brought about without cost—that the gold and silver coin which circulate in the place of the withdrawn bank notes, must be purchased with a portion of the substantial wealth—the product of the labor, land, and capital of the country; and that the advantages obtained for the country by means of the proposed reform—admitting them to be considerable—are yet not sufficiently great to compensate for the expense of their acquisition. Now, this expense, upon the supposition of an entire suppression of bank notes and bank credits, has been estimated at about forty cents annually for each individual in the nation; which would make the aggregate annual expense at present, supposing our population to be 20,000,000, $8,000,000. But it is necessary, in order to form a just estimate of this question, to consider, that while the expense of coin is incurred, that of supporting the banks of issue is saved, and that it is only when the latter expense has been deducted from the former that we shall have the real expression of the cost of a gold and silver currency. According to Mr. Gallatin, the number of banks in the country in the year 1830 was 330; and taking the average annual expense of these banks to have been $300,000, or somewhat more than one-fourth of one per cent.

upon their capital, which, upon the same authority' is stated to have been $110,101,898, and deducting this sum of $300,000 from $8,000,000, the gross annual expense of suppressing both bank notes and bank credits, there will remain $7,700,000: and assuming the number of banks and their annual aggregate expense to be the same now that it was in the year 1830, this amount of *$7,700,000 gives the true expression of the annual aggregate cost to the country of maintaining a gold and silver currency at the present time to the exclusion of both bank notes and bank credits.

In the foregoing calculation of the expense of issuing bank notes, we have proceeded, it is true, upon the supposition, that banks of issue were quite distinct from those of discount and deposit; but, as banks of discount and deposit may also be banks of issue, it may be said, that the estimate of the expense of maintaining a bank note currency, ought in fairness to be based upon the supposition that all paper issues proceed, in fact, from banks of discount and deposit; and that the cost of such issues, therefore, to the country, ought properly to be regarded only as a superadded item of expense, in the general account of cost for the maintenance of banks of discount and deposit. We are perfectly willing to admit the force of this objection, so far as to allow a considerable abatement in the estimated cost of paper money issues. We might even, without much

* We must deduct, too, from this amount the interest of the specie, which, while bank notes circulate, must be kept in the vaults of the banks, for the purpose of redeeming such notes as are presented for payment, and which, in the year 1830, it has been estimated, amounted to $1,320,000. The remainder would be $6,380,000.

prejudice to our cause, allow, that from the estimated annual cost of substituting gold and silver coin in the place of bank notes, no abatement whatever ought to be made on the score of the expense of supporting banks; and that the only deduction allowable is that on account of the gold and silver coin now kept in the vaults of the banks, and which, upon the substitution supposed of coin, would be set free, and become a part of the circulation.

According to Mr. Gallatin, the whole amount of bank notes in actual circulation, in the year 1830, was $54,000,000, and the whole amount of bank credits $55,000,000; and we may fairly assume that so long as the same system of banking continues which prevailed at that time, the amounts of bank notes and bank credits, respectively, will continue to bear to one another the same, or nearly the same, relative proportion.

Assuming then the respective amounts of bank notes and bank credits to be equal, it follows, that when the expense of substituting coin in the place of the whole amount of both bank notes and bank credits is $8,000,000, that of substituting coin in the place of bank notes only would be $4,000,000 gross amount; and, if we then deduct the yearly interest of the amount of specie now kept in the vaults of the banks of issue, for the purpose of redeeming their notes, we shall have the true expression of the present expense of maintaining a gold and silver currency, in the place of one consisting almost exclusively of bank notes. The reserve of specie in the vaults of the banks in the year 1830, has been estimated by Mr. Gallatin at $22,000,000; the interest of which, at 6 per cent., is $1,320,000,

which deducted from the gross amount of $4,000,000, leaves $2,680,000. But, as the reserve of specie for the redemption of notes, may reasonably be supposed of greater amount at present than in the year 1830, we might, by deducting the annual interest of it from $4,000,000, instead of deducting $1,320,000, which is the interest of only $22,000,00, (the reserve in the year 1830,) reduce still further the estimate of the cost of maintaining at the present time a metallic currency, in the place of the present one of bank notes.

If we assume the increase in the amount of bank notes since the year 1830, to have been in proportion to that of population during the same period, our currency in the shape of bank notes ought to be, at the present time, about $81,000,000. For our population, which, in 1830, was, in round numbers, 13,000,000, had increased in 1840 to 17,000,000; and if we suppose the ratio of increase to have been the same during the period from 1840 to the present time, say five years, that it was during the ten years previous, our population now ought to be about 19,500,000. Now, if 13,000,000 of people require an amount of bank notes equal to $54,000,000, a population of 19,500,000 will require bank notes to the amount of $81,000,000: and the interest of $81,000,000, at 6 per cent., being $4,860,000, if we deduct from this latter sum the annual interest of $22,000,000, the amount of specie in the vaults of the banks in the year 1830, that is to say, if we deduct from $4,860,000, the sum of $1,320,000, we have $3,540,000; which divided among a population of 19,500,000, will be found to be a very little more

than 18 cents annual expense for each individual in the country!

It will be readily perceived, however, that in making our estimate 18 cents for each individual, we have been abundantly liberal; for if, instead of deducting from the interest of \$81,000,000, or \$4,860,000, the sum of \$1,320,000, which is the interest of \$22,000,000, (the amount of specie in the vaults of the banks in the year 1830,) we had deducted \$1,980,000, the interest at 6 per cent. of \$33,000,000, the amount of specie which bears the same proportion to \$81,000,000 that \$22,000,000 do to \$54,000,000; and which, if it is not, ought to be in the vaults of the banks at the present time, we shall have \$2,880,000 as the annual expense which would be paid by the country for the substitution of gold and silver coin in the place of bank notes to the amount of \$81,000,000; and the sum of \$2,880,000 divided among 19,500,000 of people, would make the annual cost to each person a very small fraction short of 15 cents.

Now, it will hardly be contended, I imagine, that so small a sum as this, is too high a price to pay in exchange for the advantages which are readily admitted to attend upon the possession, by the country, of a sound and secure system of currency. This amount, small as it appears to be, however, very much exceeds that which it would be absolutely necessary for the country to pay, in order to obtain, in effect, and in every essential respect, all the advantages proposed. The reform of the currency upon which our estimate is based, it will be observed, is more comprehensive, and for that reason, proportionally more expensive, than that which, consider-

ing all things, we have thought it best to recommend. Instead of suppressing the whole amount of bank notes, estimated at $81,000,000, we propose to suppress only a portion of them, which portion will be greater or less, according as the minimum denomination of the notes permitted to be issued shall be of a higher or a lower number. The higher the minimum, the greater will be the proportional amount of the notes suppressed; and the greater this amount, the greater also will be the cost of substituting coin.

The suppression of the whole amount of bank notes in circulation, (which amount we have assumed to be equal to the sum of $81,000,000,) and the substitution of gold and silver coin in the place of them, would require, as we have seen, the annual payment of 15 cents by every individual in the country. If only half of this amount of notes be suppressed, or $40,500,000, the expense of substituting coin would be, of course, but one half of what it was, or 7½ cents per head annually. If only a quarter of it, or $20,250,000 be suppressed, the expense of the substitution would be only the half of 7½ cents, or 3¾ cents per head per annum.

Now, according to Mr. White, of New-York, in his report to Congress, made in February, 1831, the amount of bank notes in circulation, of a less denomination than five dollars ($5), was not more than seven millions ($7,000,000); and on the same authority, it appears, that the amount of five dollar notes in circulation at that period, was ten millions ($10,000,000); so that if, in the year 1831, all bank notes of and under the denomination of five dollars had been suppressed, and no notes of new denominations, such as six, seven, eight, or nine dollars

had been permitted to be issued, an importation of gold and silver must have been made, which, a deduction being made on account of the reserve of specie liberated, in such a case, from the vaults of the banks, and come to form a part of the circulation, would amount to seventeen millions of dollars ($17,000,000). Assuming the reserve to have been a fourth part of $17,000,000, or $4,250,000, the amount of gold and silver which it would have been necessary to import would have been twelve millions, seven hundred and fifty thousand ($12,750,000); and the interest of this sum at 6 per cent. per annum being $765,000, this last amount is the annual expense which it would have been necessary for the nation to incur, if it would have reformed and improved the currency by the suppression of all bank notes under the denomination of ten dollars. The expense per head, per annum, for the whole population (which at that period was estimated at 13,000,000) would have been a small fraction under 6 cents!

In order the better to judge of the extent to which such a payment, annually, might be regarded as a burthen, it will be as well to consider, under the same view, the amount of the tax, and the ability of those who were to pay it. The entire capital of the country, previous to the year 1835, had been computed to amount to twelve thousand millions of dollars ($12,000,000,000), and the aggregate of the annual incomes of the country to about a thousand millions ($1,000,000,000). Such estimates, of course, cannot pretend to accuracy; and can only be regarded as approximations to the truth; but we think we may venture to assume, that the income

of the country in the year 1831, was not less than \$800,000,000; and as the population at the same period was 13,000,000, the income of every individual, supposing the aggregate income equally divided among the population, must have been sixty-one dollars, and seven-thirteenths of a dollar, say \$61½. The ability therefore of every individual, at the period alluded to, to pay an annual tax of six cents, was based upon his possession of an annual income of sixty-one and a half dollars: or, to express the same thing in different words, every individual in the country would have paid out of his income, annually, about one-eleventh of one per cent! ($\frac{1}{11}$ of 1 per cent!) This, certainly, would not appear to be any very serious burden on the people; nor any more, probably, than every one would willingly have contributed, if he could have felt assured that, by means of it, a greater degree of security and steadiness would have been given to the currency.

What we have now said upon the subject of the cost necessary to the making a reform in the currency, of the nature of the one proposed, is, we hope, sufficient to show, that no reasonable objection can be made to the adoption of such a reform, upon the ground merely of its expense. We have shown, that the cost of substituting gold and silver coin in the place of the entire amount of bank notes, would not, probably, exceed the sum of fifteen cents annually, out of the income of every individual of the community; and that this income may be stated at about 61½ dollars; of which fifteen cents are but the 410th part; and we have farther shown, that where the substitution of coin extends only to notes under the denomination of ten dollars, the tax upon

individuals is about six cents per annum, or $\frac{1}{11}$th of 1 per cent. upon their annual income.

CHAPTER III.

The substitution of Coin—To what extent recommended—The best manner of effecting such substitution.

THE substitution of coin, we have already remarked, which, considering all things, we have thought it best to recommend, would be in the place only of a portion of the bank notes in circulation; and the cost of it would, therefore, fall short of the estimate of fifteen cents per annum. At the same time we would suggest, that if, on the one hand, the substitution of coin in the place of the entire amount of bank notes, may be regarded as a reform too sweeping and violent; and as uncalled for, with a view to the security and proper limitation of the currency; so, on the other, the substitution of it, in the place only of notes under the low denomination of ten dollars, may well be thought too partial and limited a measure for the effectual attainment of those objects. This, I must confess, is my own opinion. I should place the minimum denomination of issuable notes much higher than ten dollars. Twenty dollars would be better than ten, and thirty better still. Indeed, did I imagine it possible, in the present state of public feeling in relation to the banks, that there were any reasonable hope of so great an innovation (for so it will probably be called) being at all countenanced or

encouraged, I should not hesitate to say, that fifty dollars would be a far better minimum denomination, than any of those that I have named. I have already remarked, that to decide upon the denomination which ought to be fixed upon as the minimum of issuable notes, is not a matter of any very serious consequence, provided that the denomination selected be sufficiently high. In the earlier pages of this essay (part 2d,) I have endeavored to point out some of the evil consequences resulting from the issue and circulation of notes of very low denominations. To avoid these evils, and, as the obvious means of effecting this object, we suggested a legislative prohibition of all notes under some one selected denomination. We felt assured, that although the minimum selected should be but little raised above the present one, something would still be gained; a move would, at least, have been made in the right direction; and we hoped that the first step having been once taken, the onward progress of improvement would continue. It must not, therefore, be supposed, because we are favorable to the minimum of issuable notes being fixed at a high point, (or one which generally, perhaps, would be so considered,) that we are consequently disposed to recommend such a step to the adoption of the country, while yet unprepared for it by any previous and preliminary measures. We are well aware, that any very sudden change in the bank currency, from a very low, to a very high minimum, would, generally, though managed by the most skilful hands, be the occasion of great loss and inconvenience to the country. We know that such a change, or (more properly) reform, must, in order

to be effected without mischief, be brought about by degrees, and slowly. The first step to be taken should be, to suppress the lower denominations of notes, and then to proceed, after some interval, to those which are next highest; and so on, until we reach the highest denomination, which it may be deemed prudent or necessary to suppress. It would be proper, also, where it was in contemplation to carry any such measure into effect, that due notice should be given of such intentions, a reasonable time beforehand. If, for example, it had been in contemplation, in the year 1831, to suppress all bank notes under the denomination of five dollars; and it were admitted that the power of passing such an act were within the competency of the government; it would have been proper on the part of the latter to give notice some time beforehand (say a year) of their intention. The law would prohibit the issue, after a certain future date, or day, of all notes under the selected denomination; and would declare the circulation of all such notes, subsequent to that date, or day, unlawful. The effect of such prohibition would be, that the banks which had issued such notes would be compelled, within the time limited by law, to provide a fund of specie for the redemption of such notes; which too, it is to be observed, it would be the obvious interest of all the holders of them, before the expiration of the same limited period, to present for payment. Thus, by a very gradual, easy and natural operation, an immense mass of bank paper, amounting, in the case we have selected as an example, to the nominal value of seven millions of dollars, would be withdrawn from the circulation; and seven millions of gold and sil-

ver coin be substituted in its place. This amount, it has been remarked by an able writer* upon this subject, does not exceed that of the gold and silver which we sometimes import in a single year; though, as the same writer adds, the amount of these metals which is imported in one year, is, in consequence of the use (or abuse?) made of paper, exported in the next.

By repeating this operation in relation to all notes of five dollars, and upwards of all denominations under that of ten dollars, we should have exactly similar results, except that the amount both of notes withdrawn, and of coin imported and substituted in the place of notes, would, as we have already seen in the example of the year 1831, be somewhat greater. Thus, by successively suppressing, first, the lower, and then the higher classes of notes, and by allowing a reasonable time to the banks to provide themselves with the specie necessary for the redemption of the notes withdrawn, the currency of the country might be greatly raised in credit and character — those evils prevented which are the result of its degradation, and those benefits obtained which flow from its greater steadiness and security; and this important reform accomplished without loss or injustice to individuals, and without even inconvenience.

* Mr. William M. Gouge, "Short History of Paper Money, Banking," &c.

CHAPTER IV.

Bank Credits, &c.

It may be asked, perhaps, why, if bank notes are to be considered as the proper objects of legislative restraint and regulation, may not, with equal reason, bank credits be so considered? Bank notes, it may be said, are, in fact, but a species of bank credits. They are credits founded usually upon securities which the banks hold in their hands; and which, though not commonly called deposits, yet differ but little in their nature from these. Bank credits, it may be said, are equally with bank notes a cheap substitute for coin; and equally, with them, serve all the purposes of money in buying and selling, and circulating the products of the country. This is true. But although bank notes are a species of bank credits, bank credits are not therefore necessarily bank notes. There is a difference between them which, in reference to the question of legislative restraint, is essential, and which is easily made sufficiently obvious.

Bank credits, necessarily, arise whenever banks receive into their possession property belonging to other parties, with the understanding, expressed or implied, of accountability. In the case of mercantile notes discounted by a bank, we see that the credit assumes the shape of a bank note, or bank notes, equal in amount to the discounted note, minus the interest for the time during which this latter note has to run before it becomes payable in money. We have already spoken at large of this description of

bank credits, and have shown, that in the issue of these credits, commonly called bank notes or bank bills, public policy requires that the issues should be subjected to some degree of restraint; and have pointed out some of the restraints to which we would subject them.

Another description of bank credits, and a very important one, is that of those which arise from the deposit of money in the hands of a bank; for which money the bank becomes accountable to the depositor, and is, generally speaking, liable to be called upon by him for the whole, or any part, of it, at any moment that he may think proper to require it.* Thus the depositor has a credit with the bank in which he has placed his money, whether he has done so for the advantage of safe keeping or convenience; and this credit is called a bank credit; and is, as we have already remarked, a cheap substitute in the management of business and mercantile transactions, for the use of gold and silver coin or money. It enables the depositor to give an order or check upon the bank for the payment to any one, of any sum of money within, or up to the amount of his deposit. This order or check may either be presented for payment at once (and it ought to be presented within a reasonable time), or it may pass through several hands, and be instrumental in making several exchanges or purchases of goods or property, before being presented to the bank: and when presented, the bank may, at the option of the holder, either pay it to him at once, or place it to his credit. In the meanwhile, a part of the money deposited will be loaned, and

* This is the general rule.

perhaps profitably employed in foreign trade; and, as the bank receives the interest upon the loan, it is in this way remunerated for the trouble and expense to which it is put, in keeping the deposits, and making and receiving payments for its depositors. The orders, or checks, made by the depositors upon their agents, the deposit banks, rest chiefly for whatever of circulation they may have, not upon the credit of such agents, but upon that of the depositors themselves. For this reason, their circulation, like that of promissory notes and bills of exchange, will be limited by the credit of the drawer or issuer. Such orders, or drafts, can never enter, like the smaller denominations of bank notes, into the rapid current of the circulation, and become as such notes do, a part of the money of the country, which is taken at sight, and without hesitation and scrutiny. Nor is it necessary to the convenience of business and trade that they should. The depositors will keep by them in coin (or the lesser denominations of bank notes, if not prohibited) such small sums as are required for use in their daily or hourly consumption. For such purposes coin, or small bank notes, which are equivalent to coin, are in every point of view more convenient than orders or drafts, or checks, could ever be. These, therefore, as a general rule, will only be given for larger sums; and will never, by entering into the current of the circulation, and becoming a part of the money of the country, create disturbance or embarrassment. If, in any case, the holders of such orders or checks sustain a loss by them, through the failure of those whose credit was pledged for their redemption, the evil is but partial: it reaches immediately those whom an ordinary share of pru-

dence or circumspection should have guarded against it. It does not extend to the public. It is not, therefore, of the same nature with the failure of a bank, whose notes (particularly those of the lesser denominations) the public is compelled to take in the course of business, without having time or opportunity allowed them for examination or inquiry. These notes have become, in fact, the money of the country. They are taken for what they purport to be worth, because they are found in the circulation to pass at that valuation ; and because (although their aggregate amount may be great) their separate and individual amounts are comparatively small: and the public who take them have no leisure to make any further inquiry. It is for this reason, as I have before remarked, that the public, who, in fact, are all holders of bank notes, have a fair claim upon the protection of the legislature. That is to say, they have a right to demand, as they have no choice left but to take, blindfold, the bank notes which they find in circulation, that the legislature, which, by the establishment of banks, has given to such notes the sanction of their authority, shall so far restrain and regulate their issue as may seem to be necessary, for the security of their holders, and the public against loss. In other words (as we have already remarked), when a government or legislature sanction the establishment of a bank, and by this act afford their countenance to the circulation and credit of its notes, they are obviously bound at the same time to impose upon it such conditions and restraints as may afford an effectual security to the public and note holders. What should be the nature of these conditions and restraints—whether the bank shall be compelled to

give security for its issues, or be restricted only with respect to the denominations of notes issuable, or whether they should be restrained by making all their partners liable individually in the whole amount of their private fortunes, or by compelling them, under oath and heavy penalties, to publish quarterly, or monthly, or oftener, lists of the names of their proprietors, or stockholders, and to "hang them up in their offices for the inspection of the public"—whether any of these regulations should be adopted—or which of them—or whether others which have been devised for the same purpose, should be preferred—are questions about which there may, doubtless, be much difference of opinion: but that the legislature should give such security as it can afford to the note holders, and adopt such restrictive measures and regulations as they may deem best calculated for protecting the public against losses they may often be exposed to, through their ignorance of the issuers of bank notes, with whom, notwithstanding, they are compelled to deal (as it were) blindfold, cannot, it is obvious, admit of a dispute. Some of the restraints and conditions alluded to we have already discussed at considerable length. Others of them we shall have occasion to touch upon before concluding; and we shall endeavor, at the same time, to point out the principles which should govern, in the selection of such legislative regulations, keeping in view, at once, the well-being and security of the public; and, so far as it may be compatible with these, the uncontrolled freedom of choice and action on the part of the banks for pursuing their own interests, according to the dictates of their own best judgment and discretion. We have

already remarked (Part I., page 29) that, for sufficiently obvious reasons, depositors in a bank have not, like note holders, a right to expect that their interests and security should, like those of the latter, be made a subject of legislative provision. We may add, that the same reasons which should exclude depositors from any claim to the especial care and protection of the legislature, will apply with equal force to the holders of checks, drafts, bills of exchange, and promissory notes of merchants and manufacturers.

It is obvious that the holders of these instruments of exchange, require no further care, on the part of government, than that which is comprised within the ordinary provisions enacted for enforcing the fulfilment of contracts, and for compelling payment of such instruments, wherever it appears that the drawers, indorsers, or acceptors, or any of the parties bound, are possessed of the ability and means of making payment. It is not necessary that the law should interpose its authority, to oblige the drawers, indorsers, or negotiators of such instruments, to make public the evidence of their ability to pay their bills, notes or drafts; or to make a public declaration of the place of their residence, or of their offices: or, to adopt any other means of assuring the public of the soundness of their paper. The public, it is clear, have nothing to do with their paper. This circulates only among dealers, merchants and others, who are acquainted with one another's means and resources, and require no further light or information upon that subject, than such as may be obtained in the ordinary course of their business and transactions.

It will be proper here to revert to a distinction to which we called attention in the earlier portion of this essay, (Part II.,) between bank notes, on the one hand, and the ordinary descriptions of mercantile and business paper, on the other, in relation to the greater or less certainty of their payment being demanded within a given and limited time. From the facility with which bank notes are kept in circulation, and their payment postponed, we inferred their liability to be issued in excess; while on the contrary, the necessity which usually attends mercantile paper of being redeemed and paid, at, or within a short time after a given and stated date, renders an excessive issue of such paper an event almost impossible.

We are aware, of course, that there are other notes, besides those issued by banks, of which the time of payment is uncertain, and may be indefinitely postponed; as, for example, a promissory note, given by any competent person, and payable six months after the death of the drawer's father; but such notes are unusual in the course of ordinary business transactions, and cannot properly be accounted as commercial paper. Promissory notes too, payable to bearer on demand, or payable to order, and negotiable by simple delivery, may be issued by persons not bankers. Such notes, if they become common, were of small amount, and should get into the general current of the circulation, might be liable to the same objections as bank notes; and, like them, might require the interposition of legislative authority for the purpose of regulation and restraint. If not subjected to any legal restraints, they would be liable, like bank notes, in similar circumstances, to be

issued in excess, from the absence of that condition of payment within a limited time, which attaches usually to all mercantile paper.*

It may be objected, perhaps, that although this condition will act as a restraint upon the drawer of a bill of exchange, or promissory note to which it is attached, it cannot prevent the holder of the note from consenting, in compliance with the wishes of the acceptor or drawer, to a suspension of payment, on their part; and to becoming by such consent their creditor for an indefinite and uncertain time. But it is obvious, first, that the holder of the note or bill, will give no such consent without receiving some valuable consideration, in the shape of interest: secondly, that a request by the acceptor or drawer for any delay, or suspension of payment, would be likely to injure their credit with the holder; and if so, would, most probably, not be granted: and thirdly, that if such request should be granted, and the note holder become the creditor of the acceptor or drawer, no injury would accrue to the public, unless the credit thus established should assume the form of a note, negotiable, and payable, too, at a time indefinite and uncertain. Such notes would come under the same head with other promissory notes, negotiable and payable at indefinite times; and would require, like them, the interposition of legislative authority for their proper regulation, and in order to prevent their being issued in excess.

* See note to page 19.

CHAPTER V.

Restraining and regulating the issue of banks—How far restraint and regulation may properly be carried, and what should be their object—Rights of the public, and rights of the banks.

Having in the previous chapter taken a general view of the nature and properties of "currency," whether exclusively metallic, or mixed, and consisting partly of coin and partly of bank notes—having, too, shown that the term "currency," in this confined and limited sense, comprehends but a part, and that not a very large one, of the multiform instruments by which exchanges are effected; and further, that of all such instruments, bank notes and notes essentially resembling them in their nature and effects, are alone (or at least more especially) the proper objects of legislative regulation; and having, we hope, sufficiently demonstrated that the issuing of such notes, or, (as it may well be called,) the business of making money for the public, cannot, without the danger, or rather, the certainty of being abused, be left entirely free and unrestrained, we shall now proceed to consider in what way, or by what methods, the restraining and regulating that issue may be best accomplished; and shall return once more to the question, the solution of which is the great object of our inquiry.

It is to be borne in mind that in devising laws for the restraint and regulation of banks, and in prescribing the rules to be observed in the establishment, or the management of them, the duty of the legislator is confined, properly, to simply guarding

against the injury or detriment to which the public interests or welfare might be exposed, from the unrestrained and unregulated action and conduct of such institutions. It is no part of his business to instruct bankers—whether individual or incorporated—in the best and most improved schemes of banking, with a view to securing the largest profits and dividends upon their capital. It is no more a part of his business to do this, than it is to instruct any other class of capitalists on the best and most profitable manner of employing their capital. It is obvious that bankers, like other capitalists, are themselves usually far better qualified to determine upon the most profitable and eligible way of employing their capital, than any legislator, or, than any legislature can be. The stockholders in a bank, whether two, or two hundred, and whether incorporated or not incorporated, may be safely left to settle among themselves all those matters which concern only the interests of their bank. The object, and only object which all banks and bankers propose to themselves, is, the promotion of their own advantage—the increase of their own pecuniary gains and profits. To imagine that in the establishment or management of a bank, the proprietors and stockholders can ever have any other object than this in view, would argue a degree of simplicity not very credible. It is perfectly fair, of course, that they, like any other class of capitalists, should be permitted to employ their capital and their industry in the manner which, to them, seems to promise the greatest advantage and profit; provided always, that the liberty thus allowed them, shall not lead to consequences injurious to the rights, or detrimental to the interests of the

public. Banking, it is obvious, is not the only business, which, in order that it may be carried on with advantage, and at the same time without injury to the public, requires the interposition and restraining influence of the legislature.

The business of dyeing, that of tanning, some of the manufactures in which steam power is employed, and many others which it would be quite unnecessary to mention in detail, are very properly made the subject of legislative or municipal regulation. The legislature, in such cases, however, very wisely limits its endeavor to the prevention of the detriment which might accrue to the public were such occupations permitted to be carried on without due restraint and regulation; and having provided for the public safety, leaves the dyer, the tanner, and the manufacturer, each to carry on his business in his own way, satisfied that they will each of them, in his respective occupation, choose the best and most profitable way. The intention and object of legislating in relation to banks is, obviously, not to instruct them, but to protect the public. Banks require no instruction from legislatures upon the business of making large dividends and profits. What they chiefly require is authority for their establishment; and this having been obtained, the rights of the banks as against the public, and those of the public as against them, should be left entirely to the protection of the law, and the decision of the ordinary tribunals. And, we may observe, in passing, that where, by the legislative authority, a charter for banking purposes has, under certain specified conditions, been granted to any company of bankers, the question whether such conditions have been

complied with or have been violated, can never, without a manifest impropriety, (not to say injustice,) be referred to the decision of that body which conferred the grant.

CHAPTER VI.

Same subject continued—The establishment of Banks under the present system a matter of compromise and bargain in which the public are the losers—Banks easily elude the restraints ordinarily imposed upon them—No dependence can be placed upon the Reports of Banks in relation to their own condition.

In accordance with the views here presented upon the question of the just limits of the legislative power, in relation to the establishment and regulation of banks, it will follow, that the legislature may, by the terms of a bank charter granted, compel the grantees or stockholders to give security for the whole, or any part of the notes which may be issued under the authority of the charter—may determine upon the nature and description of that security—may require that the stockholders and proprietors shall all of them, in their individual capacity, be held responsible to the holders of their notes, in the whole amount of their private fortunes; may prohibit the issue, by the bank, of any notes or bills of denominations lower than some certain and designated *minimum*—may, in short, subject the banks which they have established, to any system of regulations, which may appear to be clearly necessary to the protection and security of the rights and interests of the public. But it would be evi-

dently improper that the legislature should enter into the regulation of mere matters of detail, which may always be better settled by the banks themselves than by the legislature. It would be improper, for example, that the legislature should require, "that the directors of a bank should make half yearly dividends of its profits; or that the directors should have the power to appoint a cashier, clerks, and other officers for carrying on the business of the bank, with such salaries as to them shall seem meet;" or, "that such cashier, clerks, and other officers should retain their places until removed therefrom, or until others shall be appointed in their places," &c. It is true, that where banks are constituted as they are in this country—that is, where no security is given to the public and note-holders, which is independent of the fate of the bank, and which will continue good, though the bank should fail, the interests of the public and those of the bank become as one, and must sink or swim together; and it may, under these circumstances, be supposed, that the legislature are justified in entering more minutely into the details of bank-management, than, under a different state of things, would be either prudent or proper; for, it is probably considered, that as the legislature, in taking their measures in relation to banks, are generally uninfluenced by motives of pecuniary interest, and are not stimulated by hopes of large profits and dividends, they are more likely to lean to the side of caution and prudence, than bank directors or proprietors; who, though deeply interested, it is true, in the prosperity and security of their bank, may, nevertheless, sometimes be tempted by the spirit of gambling and spe-

culation, and the hope of realizing large profits and dividends, to expose themselves to great and extraordinary risks. The public, though they have no share in those large profits and dividends, are yet liable to suffer severely, from the great risks to which the banks are sometimes tempted to expose themselves, in order to obtain them. The public, therefore, and the legislature, in behalf of the public, may well conceive they have a right to enter, far more minutely, into the details of bank direction and discipline, than, under a different system, would be either politic or practicable. The banks, on the other hand, while they afford the public no security independent of their own solvency—while they set apart, and withdraw from the ordinary risks of trade, no fund, which, although all their other resources should prove worthless, may yet be relied upon by the public and note holders as a certain and unfailing guaranty for the payment of the debts due them—so long as this continues to be the case, the banks, certainly, can have no right to complain of the vexatious and intermeddling nature of the legislation to which they must often be subjected. The establishment of a bank, under the existing system, is the result of a compromise between the public, (or their representatives,) and the projectors and proprietors of the bank to be established. The public concede to the bank proprietors certain rights and privileges, the possession of which are of great importance to the success of their undertaking; and in return for such concessions, they receive from the bank usually some pecuniary advantage—sometimes in the shape of a bonus—sometimes in some other shape. The public, (or their representatives,)

take upon them, at the same time, to prescribe and impose certain regulations and restraints upon the banks, to which the latter, in consideration of the privileges granted, readily submit. The public, as may readily be supposed, usually get the worst of the bargain. The banks easily elude the restraints imposed upon them, which are generally of such a nature as to be wholly inoperative in those very cases, where, had it been possible to enforce their observance, they would have been most required and of most use; and the public are left without any security whatever for the payment of the bank notes they hold, except what depends entirely upon the honesty and prudence of the banks that issued them.

To take an example of one of the devices by which it has been proposed that the legislature should compel the banks to afford security to the public: it has been one plan to make it obligatory upon the banks, "to make a periodical publication of their liabilities and assets;" and "to communicate a balance sheet to the proprietors at large." The actual publication of the liabilities and assets of a bank—supposing the publication to be made in good faith, and to give a perfectly fair and impartial account of its debts and credits, would, it cannot be denied, aid the public not a little, in forming a just estimate of the degree in which they could venture to afford it their confidence; and the subjecting banks to the necessity of making such a publication periodically, and at short intervals, would, by obliging them to consult their own immediate interest in the maintenance of their credit with the public, compel them in a measure to restrain their issues

and liabilities within moderate and reasonable bounds; while, on the other hand, if they should be found, from their own report, to have neglected this proper rule of caution, and to have exceeded the due proportion of their liabilities in comparison to the amount of assets, the public would, at least, be put upon their guard and be afforded some opportunity of escaping without loss. But, the error of this reasoning consists in supposing, that banks will ever make a true and fair report of their condition, in any case, in which it is their interest to do otherwise; or where, in other words, such a report must necessarily be an unfavorable one. Banks which have nothing to conceal, indeed, may, generally speaking, be fairly expected to give a true account of themselves. To them, the publication of the truth is not an injury. But to banks which happen, as is too often the case, to be differently situated, the publication of the truth—the plain, unvarnished truth, must often be productive of the most immediately ruinous consequences; and these will extend not only to the banks themselves, but to multitudes of persons who have no other connection with them, than as borrowers of their capital, depositors, &c. It is easy to understand, how the apprehension of producing such wide-spread ruin—of disappointing and crushing so many hopes, and causing so much misery, should very naturally render men, though generally of correct principles, reluctant to make a bold and open avowal of the truth, where such avowal is expected to be followed with consequences so terrible. The hope too of averting, or, if not, of at least deferring the evil day, must always have its influence in warping their line

of conduct from that of strict and rigid duty. Duty, under such circumstances, assumes too much of the aspect of severity; and we are easily persuaded to think ourselves absolved from a punctilious adherence to its dictates, by what we are disposed to regard, as its excessive rigor. To suppose bankers and bank directors insensible to the influence of such considerations as these, would be to suppose them more scrupulously honest and conscientious, and more firm than other men—to suppose them superior, indeed, to the condition and infirmities of our common nature. It is to be considered, too, that the report of a bank, respecting its own condition and the amount of its effects and liabilities, is not a mere statement of facts. It must generally be a statement, composed partly of matters of fact, and partly of matters of opinion. A portion, and generally a large portion, of the assets of a bank must consist of the debts and obligations which have been contracted towards it in the course of its business. But of what value are such debts and obligations? Upon this question, it is obvious, a great diversity of opinion may exist. While in the estimate of parties, unbiassed by interest or prejudice, they may be set down as absolutely worthless, in that of the banks themselves, very probably, they may be reckoned as so much gold and silver coin. A bank which has discounted bills and obligations to the extent of several hundred thousand dollars, proves, by such conduct, that at the time of discounting them, it believed these bills and obligations to be good; and they are accordingly placed among the number of its assets; but subsequent events—a change in the course of trade—a war—a treaty—the imposition of

a new tariff, abroad or at home—any circumstance, in short, which may shake the credit of the debtors of the bank, may have reduced the value of these bills and obligations to a third or to a fourth part of what they were originally worth! To expect that banks, upon the occurrence of such an event, should come forward and make a public acknowledgment of their losses, and by this means injure their credit —aggravate, tenfold, the difficulties of their situation, and perhaps even cause their own immediate destruction, would be to expect a degree of heroic, stoic virtue on the part of those institutions, which, I believe, their greatest admirers have never yet ventured to claim on their behalf. But, though we should admit that, even under circumstances the most trying, the managers and directors of these institutions may be expected to act with the greatest integrity, and most perfect good faith, still, we all know how sanguine men usually are, in relation to their own affairs; and in how different a light these may appear to the parties chiefly concerned, and to those who have no interest in them, and consequently no bias. We should, therefore, be at no loss—even in cases where suspicion of dishonesty was quite out of the question—to account for finding among the assets of a bank, and set down at their full nominal value, debts and obligations, which, in the opinion of most well-informed and unbiassed persons, would probably have been estimated as wholly worthless, or have been rated, to say the least, at a very considerable discount.

CHAPTER VII.

The communication to the Stockholders of a Balance Sheet—The inadequacy of such a device to the object proposed—The Stockholders the dupes and victims of their Agents, the Directors—The cause and origin of this evil—The Fundamental Laws of our System false and erroneous.

The same objections apply, it is obvious, and with equal force, to the proposal for restraining the directors and agents of a bank, by "compelling the communication to the stockholders of a balance sheet." The total inadequacy of such a device to the accomplishment of the object proposed, must, after what has been already said, be so apparent as to call for very little additional remark. If the stockholders of a bank have no better means of obtaining information upon the subject of its condition, than what is afforded by the balance sheet of the directors, they are not likely to be at all better instructed in the matter than the public and note-holders of the bank. During the prosperity of the bank indeed, and while there is nothing in its condition which requires concealment or disguise, the stockholders will find, in their balance sheet, a pretty fair account of the proceedings of their agents, and may feel satisfied that they have not been duped by them; but no sooner shall the reverse of this happen to be the case—no sooner shall the bank become, from whatever cause, involved in difficulties and embarrassments, than the balance sheet will cease, however fairly it may show, to be any longer a document upon which any firm and undoubting reliance can be placed. The directors, or officers of the bank, who

make out the balance sheet, are interested, chiefly, in the retaining their places in the bank—in securing, by that means, facilities for borrowing money for themselves, and lending it to others ; and in thus preserving and exercising an influence and control in the community, far greater than any, to which their own property, or character could entitle them. It is to them, therefore, of the most immediate consequence, to keep up the fair credit of the bank—to prevent its reputation from sustaining any shock, from indiscreet disclosures—to conceal those infirmities and disorders of its present state, which it has contracted in a long course of management, whether from unavoidable accidents and misfortune, or from their own imprudence ; or, what is worse, from their own dishonesty ; and which they are so sanguine as to hope they may, possibly, ultimately be enabled to cure, provided only, they can prevent any indiscreet and premature disclosures from being made.

The motives, indeed, which during a period of difficulty and embarrassment must tempt the directors of a bank to practise deception and misrepresentation upon both stockholders and public, are in their nature so strong and cogent, and the arguments which may be urged in favor of such a course of conduct, are, at the same time, so specious and plausible, that it can afford no just subject of wonder, if such motives and arguments are found frequently to prevail over the rigid dictates and exacting punctilios of a nice and scrupulous sense of duty. It is needless to say how numerous have been the instances, in this country, in which proprietors and shareholders in banks have been made the dupes and

victims of their agents—the officers and managers of those institutions. The number and frequency of occurrences of this nature, have been such as to reflect much and serious discredit upon the character and respectability of the commercial and business portion of the community, and even to have been made the subject of grave national reproach. The origin of the evil, however, is to be found, not in any defect of character, nor in any inferiority on our part when compared with other nations, in point of honesty, (for in this respect we may, without vanity, perhaps, claim as a general rule, some little advantage,) but entirely to the false principles and erroneous views upon which we have proceeded, in laying down in the first instance, the fundamental laws of our system.

CHAPTER VIII.

Limited Liability.—Numerous Partners.—Small amount of Shares. —Gambling.—The Managers or Directors of Banks.—Their Facilities, Opportunities, Temptations, and Irresponsibility.—The Want of some Fixed Principle in Banks established under the prevailing system.—In what this Fixed Principle is found to consist.—The safest Banks.

Under this system, which differs, in this respect, from that of England, no stockholder or shareholder in a bank is liable toward the creditors of the bank for more than the amount of his shares.* The effect of this is, that great numbers of persons are tempted to become owners of bank shares, who, if

* This is the general rule.

the liability had extended to the whole or any considerable portion of the amount of their private fortunes, would never probably have ventured upon such a speculation. Owing to this cause, the proprietors of bank shares and bank stock come to be very numerous. Every body who has a few dollars, or a few hundred dollars to spare, becomes in this way connected with the banks. Such a person considers, that if even the bank in which he has taken shares should fail, he can lose, at the worst, only his shares; the amount of which bears, probably, but a small proportion to that of his entire property. In the expectation of large dividends and profits, he is willing to encounter the risk of such a loss. *Every shareholder becomes, in this way, a sort of gambler.* Banks become lotteries, in which every one ventures a small sum in the hope of drawing prizes; or, which is the same thing, making exorbitant profits. The ultimate fate of the bank, and even of his shares, is a consideration too remote to have much influence on the mind of the shareholder, so long as the bank gratifies him, as it will generally find means to do, by the payment of a handsome dividend. The whole management of the bank falls into the hands of a few, who, like the majority of the shareholders, have but a small number of shares; and who, besides, have generally little other property than what they can make out of the loans from the bank itself. The men of property who, in the beginning, may have invested any considerable amounts in such a concern, would soon find occasion to withdraw from it; or will retain but a small number of shares; so, that whatever may be the fate of the bank, they may at least be secure

against the occurrence of any serious loss. The stockholders and shareholders in such a concern are too numerous—too much dispersed and distant from one another—too careless, on account of the smallness of the several investments which each of them has made in it, to be vigilant or able guardians of its true interests or ultimate fate. According to the old adage, "what is every body's business is nobody's business," and thus the entire control and management is abandoned, as we before remarked, to the hands of a small junto, whose interests and safety are not at all more deeply involved in the ultimate prosperity or failure of the bank than those of the rest of the shareholders, and who, at the same time, possess facilities for borrowing, and a command of money for the purposes of speculation, which, though extremely convenient to themselves, doubtless — enabling them often to realize large amounts of property—are yet liable too to be frequently abused, to the great injury and loss, as well of their constituents, the shareholders, as of the public and note-holders. These remarks are intended, not as a censure of any men, or class of men; but as the condemnation of a system. They are intended to demonstrate how unwise and mischievous must be any system of banking, which intrusts to the hands of an almost irresponsible set of men who, from the circumstances in which they are placed, and the facilities and opportunities which they enjoy, are necessarily exposed, frequently, to the strongest temptations, which, but too often, they have been proved by experience unable to resist; an immense aggregate of property, owned in different and distant parts of the country, and generally in comparatively

small amounts; and by a great multitude of persons, who, from various causes, which have been already alluded to, cannot possibly exercise any efficient control or superintendence over its management. It requires but little reflection, we think, to be convinced, that banks established upon such a system, and on such principles, must unavoidably, from the inherent vices of their own constitution, be constantly exposed to the greatest vicissitudes; and must contain, in fact, within themselves the latent causes of their own dissolution. The corrupting principle of the system inheres in every thing which proceeds from, or is built upon it. Such banks can possess, it is obvious, nothing of stability or firmness —nothing of strength, confidence, or durability—nothing of security or safety. They must be liable to be warped from their steady, onward course, by the allurements of every fancied and temporary advantage; and to be driven hither and thither, and be blown about and around by every breath of speculation, and every gust of fear. They must continue to be, (as they have always heretofore been,) at once, the causes, and the victims of those panics in the commercial world, which have been more fatal, perhaps, to the happiness of communities, than either pestilence or war. Every thing about them and around them, must partake of the restlessness—the insecurity—the uncertainty—the vacillation, which result from the absence of some fixed, and invariable, and determinate principle of action.

In banks properly constituted, this principle is found in the preponderance which is invariably given to the consideration of *security*, over all other considerations or objects whatever. With such banks,

he amount of dividends and profits is an object alogether secondary and subordinate. It has no veight with them, when placed in the balance, in pposition to the all important object of *security*. Now, this will ever be the guiding *principle of all banks so constituted and conditioned, as that their ruin or failure must necessarily involve and draw along with it that of their shareholders and proprietors.* Whenever this is the case, the shareholders and proprietors, it may be readily believed, will exercise a control so strict and vigilant over their agents, the managers of the bank, as will leave them little room for the employment of their discretion, and still less for the temptation of their virtue. It must be very evident that where one invests his whole property, or any large part of it in a concern of this sort, particularly if his property be a large one, he is far more anxious about the question of *security*, than about that of the amount of profits and dividends. So, if a number of persons unite in the establishment of a bank, and each of them invests in it his whole, or any large portion of his property, the ruling principle of its management will be, the consideration of *security*. The safest banks, therefore, are, generally speaking, those, in which the amount or value of shares or stock owned severally by the individual stockholders or proprietors, bears the largest proportion to that of their entire property: and in which the number of stockholders is smallest compared to the whole amount or value of the capital invested. In proportion as banks recede from this character—in proportion as their shareholders increase in number, and the amount of shares they severally subscribe for diminishes—just

in this proportion do they approach to the character of a lottery or gambling concern; and must partake, of course, of the fluctuations and vicissitudes which belong to the nature of such things.

CHAPTER IX.

Unlimited liability—its advantages—opinions quoted—security against frauds afforded by the adoption of this principle—worthlessness of the present plan of American Banking, and futility of all the checks and restraints hitherto imposed.

Were it not, however, that banks thus constituted, are intrusted with the issue of a paper currency, and that by this means, their bad management and insecurity are connected with a matter of public and general concernment, the question of introducing a reform with a view to insure their better management and greater security, would be of comparatively little importance. It is this circumstance of their connection with the currency, which makes them, more immediately, a subject of legislative attention. And when we consider how important to the public and country it must ever be, to possess a sound and secure currency, and to avoid the evils which are inseparable from one which is ever variable and fluctuating, it can hardly fail to strike us as a subject of some astonishment, that the attainment of objects of so much magnitude and consequence, should ever have been intrusted to institutions on whose prudent and able management, and consequent stability and success, we are taught, both

by reason and experience, that so little reliance can be placed.

We have already stated our conviction, that the instability and mismanagement alluded to, are, in a great measure, ascribable to that feature in our banking corporations, which consists in their having a very large number of stock or shareholders; while each of these has invested in shares or stock, an amount or value which is but small compared to that of his entire property. In order to remedy this evil, and insure better, and more prudent management, I would propose, that in the case of all banks hereafter to be established, the legislature should require, as one of the conditions of their establishment, *the unlimited liability of the shareholders;* and that upon application being made for the renewal of any of the existing bank charters, *the same requirement should be insisted on, as an indispensable preliminary condition to granting their renewal.* An experienced English banker,* and well informed practical writer upon banking, says, in his "History of Banking in America," page 78, &c.; "In America, the banks are chartered banks, and the shareholders, in most cases, have no liability beyond the amount of their respective shares. In England, every shareholder is liable to the full extent of his property for all the debts of the bank.

"Unlimited liability gives greater security to the public. It will hardly be denied that all the property of five hundred partners gives greater security for the debts of the bank than any small portion of that

* James William Gilbert, general manager of the London and Westminster Bank.

property that may be advanced in the form of paid-up capital. It is not necessary to prove that the paid-up capital, and the remaining property of the partners form a larger fund than the paid-up capital alone. The unlimited liability of the partners constitutes, therefore, a higher guarantee for the ultimate payment of the debts of the bank, whether those debts arise from notes or deposits.

"Unlimited liability, is, to a certain extent, a guarantee for prudent management. As the directors are liable to the full extent of their property, they will take care not to incur such risks as will place that property in jeopardy. And the shareholders will take care to choose directors, whose wealth and character render them worthy of confidence; and they will also attend to the annual report of the directors, and will be alive to any event that may endanger the prosperity of the bank. It is no objection to say, that private bankers run risks, although their whole property is liable, and hence the directors of joint stock banks would run risks in the same way. First: private bankers, for the most part, have not run risks as bankers, but as manufacturers and merchants, and the failure of their commercial enterprises has brought down their banks. Secondly: the private bankers had greater inducements to run risks, because all the profit of the risk went to themselves; but bank directors have no such inducements, because the profit that comes to themselves is very small, being only in proportion to the shares that they hold, while the failure might endanger their whole property, as the directors would be the first that would have judgment issued against them. Nor is it any objection to say, that

ie shareholders will not pay any regard to the administration of the banks, so long as they receive ood dividends. It may be very true, that when the hareholders have provided for the good managenent of the bank, by choosing efficient directors, hey will then attend no farther to its administration eyond receiving the half-yearly or annual reports. But let it be once even rumored that the directors ire acting unfaithfully towards the shareholders, or et it be suspected that the dividends are not paid out of the profits, and then see if the shareholders will not meet, and show, by their conduct, that they are alive to the sense of unlimited liability.

"The unlimited liability of the shareholders attracts the public confidence. It is not enough that a bank is ultimately safe. A want of confidence in our banking establishments has been the cause of much misery. The panic of 1825 would have been far less calamitous had there existed no suspicion of the banks. * * * * It will not be denied that the public will place greater confidence in a bank, where, in addition to the paid-up capital, they have a claim upon the property of all the partners, than where they have to depend upon the paid-up capital alone. It is remarkable that this tendency of unlimited liability, to inspire public confidence, should be advanced as an objection against it. It has been said, that the public confidence may be abused, and that the banks, presuming on the confidence they know they have acquired, may engage in speculations to which they would not otherwise resort. We grant that public confidence may be abused; but is there no way of guarding against these abuses, but by rendering the banks less deserving of confidence?

* * They who assert that unlimited liability acquires an excessive degree of public confidence, admit that the public opinion is in opposition to their own. *They* think that unlimited liability renders a bank less worthy of confidence; the public think the reverse, and they act accordingly."

Mr. McCullock, a deservedly high authority upon this subject, says:* "The American banks are all joint-stock associations. But instead of the partners being liable, as in England, for the whole amount of the debts of the banks, they are in general liable only for the amount of their shares, or for some fixed multiple thereof. It is needless to dwell on the temptation to commit fraud held out by this system, which has not a single countervailing advantage to recommend it. The worthlessness of the plan on which the banks were founded, was evinced by the fact that between 1811, and the 5th of May, 1830, no fewer than a hundred and sixty-five banks became altogether bankrupt, many of them paying only an insignificant dividend; and this exclusive of a much greater number that stopped for a while, and afterwards resumed payments. The wide-spread mischief resulting from such a state of things has led to the devising of various complicated schemes for insuring the stability and prudent management of banks; but as they all involve regulations which it is impossible to enforce, they are practically worse than useless."

* McCullock's Commercial Dictionary, Supplement.

CHAPTER X.

Additional views and arguments in favor of unlimited liability—Scotch system of Banking—Opinions and reports of the English House of Lords and Commons.

In addition to these views and arguments in favor of the plan of unlimited liability, I would farther suggest, that the adoption of it into our system, would be attended with other advantages, which, upon referring to what has been already said upon the subject of the defects of our present scheme of banking, will be readily understood. Were liability unlimited, the shareholders and stockholders in our banks would severally own in them a larger amount of shares and stock, and would, consequently, give more attention to their management and security. The shareholders and stockholders, too, would be generally fewer in number—be less dispersed and distant from one another; and be better able, therefore, to act with promptness and efficiency, and better able to exert a direct control over their agents, the directors, and to keep the latter in due subordination. The improvement in bank management which would result from these changes in the relation subsisting between stockholders and directors, would, as it appears to me, be highly important. The management of banks having been brought, through the adoption of the plan of unlimited liability, more immediately under the control and superintendence of the stockholders, we might with confidence expect that it would be conducted with a single eye to the interest, and above all, the *secu-*

rity of the stockholders themselves; and it can hardly be necessary to add, that the interest and security of the stockholders, must always be, in fact, the interest and security of the public.

Under our present system, it is obvious that the directors of banks are exposed, in the management of their trust, to be influenced by a variety of considerations, political and personal, which are, often, not only not in accordance with, but are even in direct opposition to the interests and security of their constituents. It is not very uncommon to hear of bank directors and bank presidents having attained, through the influence of their position—through the hopes and fears of those who expect, or the gratitude of those who have already received favors, to a high pitch of political consideration and importance. How cautious are many of incurring the enmity—how desirous of possessing the friendship of banks! that is, of their directors and managers! It is to be feared that the dispensation of favors by which such effects are produced, and so much power and influence acquired, is not always made with the strictest regard to the interests and security of the stockholders.

The conclusion seems inevitable, that under a system that limits the liability of stockholders to the amount of their shares, and which, consequently, admits of the amount severally owned being small, it is quite impossible that banks should ever be well, or faithfully, or ably managed; or should possess that degree of stability and security which alone could justify the legislature in intrusting to them the important and delicate function of supplying a circulating medium, for the purpose of commerce and

exchange. By the adoption of the principle of unlimited liability, we oblige the stockholders either to withdraw from the bank, or to invest in it so considerable a portion of their property, as that their interest in the concern will justify their encountering the chances of its failure; and will, at the same time, secure such a degree of attention and vigilance on their part, as would be the surest guarantee against the occurrence of such a misfortune.

To the arguments and views that have been urged in favor of the unlimited liability of bankers and bank-partners, we may add, that the plan which we recommend for adoption in this country, has been in operation in Scotland for above a century, and that it has uniformly been attended with the best possible results. A committee of the House of Lords, appointed (1825) to take evidence upon the subject of the system of banking in Scotland, say in their report, that "It is proved by the evidence, and by the documents, that the banks of Scotland, whether chartered or joint-stock companies, or private establishments, have for more than a century exhibited a stability which the committee believe to be unexampled in the history of banking—that they supported themselves from 1797 to 1812, without any protection from the restriction by which the banks of England and Ireland were relieved from cash payments—that there was little demand for gold during the late embarrassments in the circulation; and that in the whole period of their establishment, there are not more than two or three instances of bankruptcy." The committee of the House of Commons, appointed upon the same occasion, express opinions in relation to the operation and re-

sults of the Scotch system of banking, which perfectly concur with those of the House of Lords, just stated.

Of thirty-one banks in Scotland which issue notes, five only are chartered, (1844;) that is to say, five only have a responsibility which is limited to the amount of their subscribed capital. Of the remaining twenty-six, the proprietors and stockholders are liable to the note-holders and public for the entire amount of their bank responsibilities up to the last farthing of their private fortune.

CHAPTER XI.

Facilities afforded to the Public by the Provisions of the Law for ascertaining the amount of Property and Fortunes owned by Proprietors and Stockholders of Banks—Provisions of the Law of Scotland—Power of a Creditor in that Country.

But while we insist upon the importance of unlimited liability on the part of the proprietors of a bank, as one of the most effective means of insuring its prudent and able management, we are, of course, perfectly aware, that such a principle, except in the case of banks whose proprietors are, in fact, persons of property and fortune, must necessarily be utterly nugatory; and, that it is, therefore, quite necessary to the efficacy of the principle, that facilities should be afforded the public, for ascertaining the amount of property or fortune owned severally, as well as jointly, by the partners in banks; and for enabling the creditors and note-holders to attach the banker's property, of whatever description, and

making it available for the payment of his debts. It seems to be owing to a want of these essential conditions in England, that the principle of unlimited liability has never been attended in that country with the same degree of success which has been observed so uniformly to attend it in Scotland.

In the report of a committee of the House of Commons, in 1826, it is said, "The general provisions of the law of Scotland, bearing upon this subject, are calculated to promote the solidity of banking establishments, by affording the creditor great facilities of ascertaining the pecuniary circumstances of individual partners, and by making the private fortunes of those partners available for the discharge of the obligations of the bank with which they are connected; * * * and, excepting in the case of the bank of Scotland and the two chartered banks, which have very considerable capitals, the partners of all banking companies are bound jointly and severally, so that each partner is liable to the whole extent of his fortune, for the whole debts of the company. A creditor in Scotland is empowered to attach the real and heritable as well as the personal estate of his debtor, for payment of personal debts, among which may be classed debts due by bills and promissory notes; and recourse may be had, for the purpose of procuring payment, to each description of property at the same time. Execution is not confined to the real property of a debtor merely during his life, but proceeds with equal effect upon that property after his decease.

"The law relating to the establishment of re cords, gives ready means of procuring information with respect to the real and heritable estate of which

any person in Scotland may be possessed. No purchase of an estate in that country is secure until the *seisine* (that is, the instrument certifying that actual delivery has been given) is put on record; *nor is any mortgage effectual, until the deed is in a like manner recorded.*

"In case of conflicting pecuniary claims upon real property, the preference is not regulated by the date of the transaction, but *by the date of its record.* These records are accessible to all persons, and thus the public can with ease ascertain the effective means which a banking company possesses of discharging its obligations; and the partners in that company are enabled to determine, with tolerable accuracy, the degree of risk and responsibility to which the private property of each is exposed."

It is in a great measure ascribable to these excellent provisions, that in the year 1793, and 1825, when so many of the English provincial banks became bankrupt, those of Scotland, without a single exception, remained firm and unshaken.

CHAPTER XII.

Summary of the foregoing Views and Arguments.

From all this, it would seem, that in order to give stability to a banking system, four conditions are chiefly requisite; first, that the bankers (or proprietors of banks) shall be men of property and respectability, and not mere adventurers and gamblers; secondly, that the certain knowledge of their being

so, shall, by the provisions of the law, be placed within the reach of every one, and shall cost neither trouble nor expense; thirdly, that the property of the partners, thus known to exist, and of whatever kind it may be, shall be liable, to the last shilling, for the debts of their bank; and fourthly, that every facility shall be furnished by the provisions of the law, for enabling the note-holders and creditors of the bank, to attach the property of the partners, of whatever description it may be, and to make it available for the payment of the debts and liabilities of the bank.

A very little reflection is required to perceive that where the second of these conditions is complied with, the first of them would follow as its natural and necessary consequence. Where the public possess the means of at once obtaining a perfect knowledge of the property and the circumstances of all who undertake the business of banking, it is not at all probable that any one would set up for a banker, or would be admitted into an association of bankers, who possessed not the qualification required; and where persons possessing the required qualifications, that is, property and respectability, have taken upon themselves the office of banking and supplying the public with currency, their liability (under the third condition) for the debts of their bank, to the whole amount of their property, and the facilities afforded by the law (under the fourth condition) for giving full and ready effect to that liability, would afford the best guaranty of prudence, honesty, and success in the management of their affairs, which could well be given.

To the public, who, in this country, where bank-

currency has usurped the place of gold and silver coin, have no alternative left them, but either to take that currency, with all its risks, or to incur the still greater evil of doing without currency at all; it is obviously, but an act of simple justice that they should be put in possession of all the facilities which can be afforded for enabling them to discriminate between the sound and unsound portions of that currency which has thus been forced upon them; and that for this purpose, they should know both who those are who issue the bills or notes which are offered them—their names and residence, and further, the amount and circumstances of their private property and fortune. The possession of such knowledge, on the part of the public, would prevent all bank notes from becoming current, except such as were issued by parties known to be possessed of property; and would, consequently, prevent all issue of bank notes, except by parties who are possessed of this qualification. It is not sufficient, however, that the public know that the issuers of notes possess the required qualification; they must know, too, that the property which constitutes that qualification is readily available for the payment of those notes. When they shall be fully satisfied, first, that the property is there, and secondly, that it is readily and securely available for the payment of the notes they hold, they will then possess that firm and undoubting confidence in the bank, which, although sometimes found to exist without any sufficient ground for it, is yet always of indispensable importance to the support of even the best and most prudent system of banking, of which, generally, it is the natural and ordinary effect and attendant.

CHAPTER XIII.

Objection to the adoption of the Scotch System in America examined —Real difference between the situation and circumstances of Scotland and America in relation to the subject of Banking—Why is the Scotch banker more anxious than the American about the question of security?

It has been asserted, that the stability and success of the Scotch system of banking have been owing, rather to the limited field of enterprise presented in Scotland, than to any thing peculiar to, or inherent in the system itself. "The spirit of enterprise," it has been said, "will always be proportionate to its field, to the prospects open to it by the extent, geographical situation, and other circumstances of the country." If it be true, that, in Scotland, the temptations to engage in new and untried speculations are less powerful than in America, then it would appear, that in the latter country, where it is admitted that the danger of imprudent banking is greatest, we have adopted a system, among the loosest and least secure; while, in the former, where that danger is acknowledged to be inconsiderable, the system adopted is the very reverse of ours, and is, in a remarkable manner, adapted to the purpose of guarding against and averting the description of danger alluded to. In truth, however, no such difference exists between the situation and circumstances of the two countries, as could justify the assertion, that a banking system which, it is acknowledged, has been eminently successful in one of them, would prove a failure in the other. The real difference between Scotland and America, so far as

this question is concerned, is simply this: that in the latter country, there being less capital in proportion to the means of employing it, than in the former, the profits of capital are larger, and the increase and accumulation of capital (supposing an equal frugality in the two countries) are more rapid. As in America more can generally be made by the employment of capital, so more, that is, a higher rate of interest, will generally be given for the loan of it. In America, the great natural agents, which co-operate with capital, are more abundant and cheaper, and, therefore, notwithstanding the greater comparative dearness of labor, the capitalist is enabled to realize in America a larger profit upon the capital he employs. In Scotland, the *premium* (so to speak) upon the employment of capital is less, and capital, consequently, is less active; but, for the same reason, the task of the banker is more difficult—for his business is to find employment for capital—and such is the competition among those employing capital in Scotland, that it is hardly possible that all of them should succeed. In America, the insufficiency of the existing capital for the numerous profitable and safe employments for which it is required and demanded, and the consequent facilities possessed for the employment of capital, both profitably and securely, should naturally have the effect of preventing it from being squandered away upon undertakings in which the risk is great and the profit is uncertain. The man, it is obvious, who has the means of regularly and securely increasing his property in some safe and useful employment, has less temptation to engage in hazardous undertakings, in the hope of large profits, than he who, possessing an

equal property, is without those ordinary means of gradual and progressive increase of fortune. And upon the same principle, the man who, in some safe employment, can make ten or twenty per cent per annum upon his property, has less temptation to run risks in the hope of some extraordinary good fortune, than he who, with an equal property, can make only, in the ordinary methods, some three or four per cent. Scotch capitalists, therefore, whose ordinary profits are comparatively low, ought, as a class, to be more adventurous—more disposed to encounter extraordinary hazards, and to engage in extraordinary enterprises, than American capitalists, whose profits in their ordinary employments are comparatively high. How then, it may be asked, shall we account for the acknowledged truth that in Scotland, business, commerce and speculation are conducted with a prudence and caution quite unexampled; while in America, the very general absence of those homely, but useful virtues, it may be fairly asserted, is scarcely less remarkable, than their presence and prevalence in the former country? Mr. Gallatin tells us, "the Scotch are an enterprising people; but the great, and indeed, extraordinary progress they have made in agriculture, manufactures, and commerce, has been gradual and regular, obtained by persevering industry, and accompanied by a degree of prudent caution and of frugality altogether unknown in America. * * * * The property, standing, and character of every member of the commercial community are generally known." The truth of these remarks is undeniable, and the question recurs: How are these things to be accounted for? Why is it that business and banking are conducted in Scotland with

so much prudence, and so little loss? Why is it that the Scotch banker, and man of business, is so much more cautious, apparently, and so much more anxious than the American, about *security?* The answer is sufficiently plain. The Scotch banker in the first place, in order to be a banker, must have property; and in the second, he knows perfectly well that the whole of that property, as well after his decease, as during his life, is liable for the debts of his bank, and that this is not merely the theory of the law, but reality and practice. When, therefore, he lends money, or bank bills upon the security of a discounted note, he takes very good care that the *security* is good; for he knows full well that if it should turn out to be otherwise, the loss, whatever the amount, will fall—where it ought to fall—upon himself; and not, as it usually does in America, upon the public—the note-holders and depositors. On the other hand, as the merchant, trader, manufacturer, or other person who borrows the money or bank notes, obtains the loan, only upon the condition of affording the most satisfactory security, it may be presumed that he is a man of property, or respectability of character, or both, and that he is not likely to dissipate the loan in expensive pleasures, or to squander it away upon thriftless and visionary schemes; but that, on the contrary, he will employ it judiciously and profitably—in some way, at all events, which will enable him to fulfil his engagements and maintain his credit. Such prudent conduct on the part of banks, and the borrowers from banks, would, it can hardly be doubted, go far to prevent undue expansions of the currency, which very frequently result, solely, from the too great fa-

cility with which banks—anxious to push out their issues, and hoping to throw their liabilities and losses upon the public—are willing to grant accommodations to applicants for discounts without a sufficient scrutiny of the securities which are offered them.

APPENDIX.

THE DOCTRINES OF THE PROTECTIVE POLICY.

An eminent advocate of the protective policy, in a well-known dinner-speech delivered in Philadelphia, the 2d December, 1846, says: "The next great subject is the tariff, which I discussed at the time, and about which I have nothing new to say. My object is and has been in every way connected with the protective policy —the true policy of the United States—to see that the labor of the country, the employment of the country, is properly provided for. I am looking not for a law such as preserves the capitalists, they can take care of themselves, but for a law which shall induce capitalists to employ their capital in such a manner as shall occupy and employ American labor."

He adds, that he goes not for such laws as shall induce capitalists to withhold their capital from actual operation, giving employment to thousands of hands. "I look to capital, therefore, in no other view than as I wish it drawn out and used for the public good and the employment of the labor of the country." In other words, this eminent protectionist would persuade the people—the laborers—the hard-working men of the country—the hewers of wood and drawers of water—that he is THEIR friend. The capitalists, he says, can take care of themselves. It is the laborers who are the objects of his especial care. He desires to have *laws* enacted which shall give employment to the laborer.

Now, although opposed to the "protective system," we profess ourselves not less desirous than the orator alluded to to have the labor of the country both fully employed and fully rewarded. The

only difference between us is in the means we would use in order to effect this object. We entirely agree with him in thinking that the capitalist can take care of himself; and in proof of this, we would appeal to the wealthy manufacturing capitalists of Boston and Lowell, whom all will allow, I think, to have taken very good care of themselves. It cannot be denied, certainly, that the capitalist is in a much better position for taking care of himself than the laborer; for although his profits should be very moderate, or even low, he still has enough and to spare for not only the necessaries and comforts of life, but even for its luxuries and superfluities. Not so the laborer; he depends for his daily bread upon his daily labor, and in order to have daily bread must have employment. He has not, like the capitalist, a fund upon which for a longer or shorter period of time he can subsist without employment. He is under the necessity of being almost constantly employed; and although constantly employed, can command little more than suffices for the supply of the bare necessaries, and perhaps some of the more essential comforts of life. If, therefore, it were possible for a legislator, in making laws for regulating the commerce and industry of the country, to make a just discrimination in favor of one class of citizens rather than another, or to give a preference of one to the prejudice of another, his sympathies would naturally be enlisted on the side of those whom fortune had least favored, and to whom the bounty of legislation therefore would be the more acceptable, and the more necessary. He would incline to favor the poor rather than the rich—the hard-working laborer rather than the man of ease and leisure. He would rather enable the poor man to obtain the necessaries, than the rich man to obtain the luxuries and superfluities of life. This sentiment would be the natural prompting of humanity, and it is the origin of all those institutions of charity, which are to be found established in all nations which have made any important advance in the progress of civilization. Such institutions are designed for the use of the poor and unable—for the decrepit and the maimed—for the blind, the halt, and the deaf—for all those unfortunate members of society, in short, who from accident or birth are without the *natural faculties and powers necessary for rendering themselves by their labor independent of their fellows.* In all civilized nations this class of unfortunates has been the object of compassion and "protection." It has been thought right, and proper, and humane, that those who

cannot take care of themselves should be taken care of by the public—that those who cannot "protect" themselves should be "protected" by the public; and for the purpose of "protecting" and taking care of this class of unfortunates, the public have been willing to submit to incur the burthen of taxation. This increase in England has amounted, in a single year, to as much as £6,000,000; for in England, in consequence of the high price of corn, and the comparatively low rate of money wages, in other words, in consequence of the low rate of real wages, or the low price of labor valued in corn, and the necessaries of life, many are rendered paupers, and become unable to support themselves, who in *this* country would by their labor, though of the cheapest sort, become quite independent of the public charity. It can be scarcely necessary to remark that a tax levied for the support of a public charity, cannot be regarded as coming under the head of *commercial regulations—laws of trade—or laws for the regulation of industry.* Such a tax is a tribute to humanity. It is a burthen borne by those who pay the tax, not with a view to benefit themselves, but in order to benefit *those who are the objects of their* COMPASSION, the lame, the blind, the halt, the imbecile—in short, the paupers of the country who are unable to provide for and support themselves. If those who advocate a protective tariff, would come out boldly and call it what it is, a tax upon the community in the shape of *high prices* for the benefit and support of *paupers*, in certain favored districts and sections of the country, they might claim at least the merit of honesty and candor. If they would rest the claim of a protective tariff to the support of the community upon the ground of its affording support to those who, without its aid, could not support themselves; although they might fail in establishing the validity of such a claim when addressed to a legislative body of *limited and restricted powers*, they might still be thought to entitle themselves to the merit of humanity, and would escape at least the imputation of deception. This of course they will not do. They never will be content to acknowledge that in attaining a protective tariff, they receive an *alms*. This would not comport with the dignity of either the patron or the client. The alms-payer must be told that he pays his contribution not to benefit another, but himself; that he pays a high price instead of a low one, not because his doing so will serve to swell the profits and to enhance the wages of another, but because it redounds to his own

advantage by increasing the wealth and prosperity of the *nation*, of the country at large—that whatever he pays out with one hand he receives back with the other, that the country by his contribution is rendered independent of foreign countries, that the labor and industry of the country are "protected" against foreign competition; with many other similar assumptions, not ill adapted perhaps, for making an impression upon the minds of uninformed and uneducated classes, but quite unworthy certainly, in the present enlightened age, and in this country, of being addressed to men of sense and reflection; and calculated to create in the minds of this latter class of persons no favorable opinion of the motives, the candor or the understanding of those who promulgate and proclaim such fallacies as the watchword of party and *Shibboleth* of their political faith. We repeat that if the advocates of a protective tariff were satisfied to rest its claim to public support upon the ground of its being a "*charity*" they might at least escape the imputation of a want of candor, and would entitle themselves perhaps to the praise of humanity. But as they have chosen to rest their claim upon a higher ground, and have assumed the protective tariff to be a measure calculated to encourage the industry, develop the resources and promote the general prosperity of the country, it shall be our task to inquire how far such pretensions can be supported, how far they have any foundation in truth; and to endeavor to make it as clear to the minds of others as it appears to our own, that all the leading doctrines and opinions of the school of "protection" rest upon premises and assumptions wholly groundless and illusory. One of the most plausible of the arguments employed by the friends of "protection" is *that* founded upon the notion that by means of it we create a market for the products of our agriculture, and thus by encouraging or "protecting" manufactures *directly*, we *indirectly* afford protection and encouragement to agriculture, and cause in this way a general and diffusive prosperity. This argument is plausible, but if we examine it with but a little attention we shall find it wholly fallacious. Let us suppose that any country being entirely isolated and without commerce, has divided its industry equally between agriculture and manufactures, and that while one-half its laborers make corn enough for themselves and for the manufacturers composing the other half; the latter make manufactures, a part of which is consumed by themselves, and the remainder goes to pay for the corn

8

a payment individually or nationally

which they consume. Now let us farther suppose that from some cause or other the country in question comes into communication with foreign countries, and that the agricultural half of the population find that with the half of their corn with which they have hitherto purchased domestic manufactures, they can purchase foreign manufactures of double or treble the amount. The agricultural portion of the population must clearly be benefited, for they have the same quantity of corn for their consumption, and they are better supplied with manufactures than they were. The manufacturing half of the population, indeed, must for a time receive a check, but only until they shall have had time to change their industry from manufactures to agriculture, when, if the foreign market for corn does not fail, and land at home is in abundance, they will share the advantage and profits of that portion of the population which was agricultural before the foreign commerce of the country existed, and which, as we have seen, have been benefited by it; being *equally* well supplied with corn and *better* supplied with manufactures than they were before. In the case supposed, the benefit to the country consists in the fact that it is equally well supplied with corn, and better supplied with manufactures, than before it possessed the advantages of foreign commerce; or, to express the same thing in different words, it has been enabled by its foreign commerce to obtain a greater command than it possessed before, over all the necessaries, conveniences and luxuries of life—over all the objects which constitute national wealth, than if it divided its industry between agriculture and manufactures, and excluded all the products of foreign commerce. The supposition that we make is, that any given portion of domestic industry or labor, when applied to agriculture, produces more manufactures, *indirectly*, and by means of exchange or purchase, than it could have done had it been applied *directly* to the fabrication of manufactures at home. The relation in which we have considered that one country may be placed in respect to another, and which would make it more advantageous for it to *purchase* than to *fabricate* its manufactures, may arise without supposing that the country obtaining manufactures by importation from another or foreign country, is necessarily inferior to that other or foreign country in its skill or knowledge of the arts of manufacture. That relation may arise *solely* from its possessing a superior soil, more fertile, more productive land, mineral wealth, coal, iron, gold, silver.

The foreign manufacturing country supposed may indeed possess no soil—or *no arable soil*—no soil capable of producing corn, or coal, or gold, or silver, or any raw material of any description whatever, and may be dependent, therefore, for whatever of such things it consumes, upon its more fortunate neighbors.

Now we shall be glad to be shown how in the case supposed, the market of agricultural products is lessened by the opening of foreign commerce and the introduction of foreign manufactures. It is quite obvious, on the contrary, that the market for agricultural products is greatly extended, and the returns in the shape of manufactures greatly increased.

Let us look at the same case once more, and without making any change in our assumed premises, let us vary, in some slight degree, the light in which we view it. The results will be the same. The country supposed is cut off from all communication with foreign countries, stands alone, and depends wholly upon her own labor and resources. The laboring and producing portion of the population of such country we will suppose divided between the great business of agriculture—producing the breadstuffs necessary to subsistence—and the scarcely less important business of all those useful arts and manufactures whose end is to furnish the comforts, conveniences, and luxuries which, if they do not directly *support* life, contribute, at least, largely to its enjoyment and happiness. For the sake merely of rendering the matter in question one of more easy apprehension, we will suppose the laboring or producing population to be *equally* divided; one-half producing the corn or bread stuffs necessary for subsistence, and the other half the manufactures and commodities contributing to the convenience and enjoyment of life. The whole annual income of such a country, then, consists in its whole annual product of corn, &c., and its whole annual product of manufactures. This aggregate product constitutes the measure of its annual wealth—the measure and fund of its annual expenditure—derived as it is from its entire amount of land, labor and capital. Now let us inquire if it be possible, by means of foreign commerce, to increase this annual aggregate income. We will call the country we have been speaking of America; and we will suppose that some foreign country (which for convenience we may call England), offers to exchange, in return for any given amount of American agricultural products, twice as much of man-

ufactured commodities as were obtained in the American market for the same amount of agricultural products. If America accepts the offer, and a free commerce is established between the two countries, the labor of the one-half the population supplies, as before, the means of subsistence to the *whole* population; while the labor of the remaining half, applied now also to agriculture, affords the means of *purchasing* from England, in exchange for the corn which they, the remaining half, produce, twice the amount of manufactured commodities which they could fabricate or make by direct labor themselves. The country supposed, therefore, (America, if you choose,) is *equally* well supplied with corn and the means of subsistence as when isolated and without commerce; and, at the rame time, and in consequence of the establishment of a foreign commerce, and the introduction of manufactured commodities from abroad, it is enabled to command *double* the amount of those which it formerly could. The gain, then, to the country is, that it has twice as large an amount of manufactured commodities for its annual consumption; and, as regards the market for its agricultural produce, this, we see, is just double of what it was before—a fact rather at variance with the "sage and serious" doctrines of the "protectionists," who would teach us that the true way to create a market for agricultural products is, to build a Chinese wall about the country—to hem ourselves in on all sides with a net-work of imposts and restrictions, and, by shutting out all commerce with the world, to "resolve" that no market is so good as our own little one at home.

The "protectionists" contend, too, as we have seen, that where all commodities consumed by a community are produced at home, the industry of the country is more *fully employed*, than if a portion of those commodities had been imported from abroad. Now, in the first place, I may remark, that I conceive this proposition to be wholly gratuitous; and, in the second, that were it true, it would not follow as a necessary consequence that the *value* or the *amount* of the product of an exclusive home industry would bear any fixed proportion to the degree of the extension or employment of that industry. Something must depend upon the *manner* in which that industry is employed—to the *direction* which it takes, or which is given to it.

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IMPOLICY OF PROTECTIVE DUTIES.*

A COMMUNITY may be very *industrious* and *produce* very little. Its *industry* may be great, and yet from that industry having been *misdirected*, its *product* may be comparatively very small, of very little value. If the same amount of human exertion and sacrifice, or in other words labor, had been expended in some other way, the amount of useful and necessary commodities might have been greater. If, for example, England should prohibit the importation of tea, and determine to produce it at home, she might no doubt by means of bounties effect this object; but it must be done at the expense of a vast waste of labor; and although the industry of the country might be as great, or greater, than before such absurd freak of legislation, it would not, it is very evident, be as *effectively* employed as it had been.

It has been estimated by political economists that, in order to produce by British labor within the kingdom of Great Britain the amount of tea now annually consumed by the inhabitants of that country, as many hands would be required as are now employed in her entire agriculture. The government of Great Britain, by laying a sufficiently heavy tax upon the people, and by expending the proceeds of this tax in bounties to the producers of tea, would be enabled to divert the labor of the country to the production of this article, and to insure the *production* at home of as much of it as is now imported from China.

But would such a tax be just or wise? The justice, or injustice of levying a tax upon the people must depend upon the object with a view to which the tax is levied. If the object be, for example, the national defence, the administration of justice, the preservation of order, or even the maintenance of the national honor, (which is closely connected and bound up with the others,) all will admit that a tax levied with a view to any of these important national interests, and not heavier than is necessary for their maintenance, would be in the highest degree just and wise; and that the neglect to impose a tax necessary for the accomplish-

* Originally published anonymously—now republished with some alterations and omissions.

ment of these objects, would be a virtual abandonment of all the duties of government. In the case of taxes imposed for such objects as these, the government is in fact the mere agent of the tax-payers for disbursing a portion of their means in return for services performed for their benefit and advantage. The planter, the lawyer, the physician, the merchant, the shopkeeper, &c., pay a tax to the government, and the government disburses it into the hands of the military, the judiciary, and the police. A portion of the property of the former classes is taken by the authority of the government and transferred to the possession of the latter; but the tax-payers are compensated for this reduction in their means of ordinary expenditure in the services rendered by the servants of the public to whom the proceeds of the tax are paid. If the army, the navy, the judiciary, or the police should be more numerous than might be found necessary for the due performance of the services they owe their constituents, the tax-payers, the effect would be that a greater portion of the community than necessary, would be withdrawn from those occupations and employments which contribute in their results to the increase of the national wealth and prosperity. In other words, the entire amount of *services* performed by all the working classes of the community (taking the word *working* in its most comprehensive sense) will be less, and the wealth of the community be so far diminished.

The same mode of reasoning may be applied with equal force to other objects of general concern. When the members of a community purchase imported tea, they may be said to tax themselves to the amount necessary for the procuring that article. They are willing to give in exchange for the quantity of it they desire to consume, the labor or the value of the labor of fifty thousand British laborers, (for example); for this is the number of British laborers supposed to be employed in England in the production of those commodities which, directly or indirectly, constitute the means of purchasing the tea imported into Britain from China. If the parliament saw proper to do so, they might (as I have already remarked,) by means of taxation and bounties sufficiently high, draw a portion of British labor from other employments to the home culture and production of tea. The number of hands employed in the production of tea, instead of being fifty thousand, (the number now engaged in the production of articles with which, directly or indirectly, tea is purchased,) would be up-

wards of one million. Thus would the labor of nine hundred and fifty thousand hands be thrown away. It clearly makes no difference in the result, whether the tea imported from China (supposing no prohibition) is purchased *directly* or *indirectly*—whether the commodities produced by fifty thousand hands are directly exported to China and exchanged for tea, or whether they are exported to South America, and exchanged for gold and silver, which gold and silver are thence sent to China for the purchase of tea. A few hands more may be employed in the latter case than in the former; and supposing in the former case (that of a direct exchange of commodities for tea), that fifty thousand hands are employed in the fabric of the article, and five thousand in the exportation of it, and the importation of tea, we have an aggregate of fifty-five thousand men employed in furnishing the country with a luxury, which, if produced at home by British labor, would require no less than one million of men to raise it: while in the case of an indirect exchange of commodities for tea, where the commodities are first exchanged for gold and silver, and these then exchanged for tea, the whole number of men employed might on a liberal calculation be estimated at five thousand more, which would make an aggregate of sixty thousand. Thus, at the very lowest calculation, a saving to the state would be made of the labor of nine hundred and forty thousand hands. Sixty thousand hands would produce the means of purchasing the tea and make the necessary exportation and exchanges; and actually furnish the tea in the British market as well as if under the non-importation system one million of men had been employed in its production at home.

But (say the advocates of the protective policy) nine hundred and forty thousand hands are thus *employed*. "The very object of our system is, to give employment to labor, and the more hands that are employed in order to produce a given result the better?" It can scarcely be necessary to remark, that if this reasoning is carried out to its legitimate consequences, it must lead us to the most preposterous conclusions. It would follow for example that those nations would be most prosperous and wealthy, which, from the barrenness of their land, or their want of skill in agriculture, were compelled to employ the greatest proportion of their population in raising a bare sufficiency of bread stuffs for the subsistence of the people! And, if the labor of the *entire* population should be-

come necessary for that purpose, then, according to these profound reasoners, the national prosperity and wealth must attain its climax! It would follow also, by parity of reason, that all those tools, machines, and instruments which have been devised by human ingenuity for saving labor, and enabling one man to do the work of ten, a hundred, or even a thousand men, so far from contributing to the wealth and prosperity of a nation, must have a tendency the very reverse of this, and produce poverty, want, and wretchedness!

But let us examine this matter a little more narrowly. Of the one million of men employed under the non-importation system, nine hundred and forty thousand are an actual burthen upon the community. They actually contribute in no degree whatever to augment the annual amount of national production. They *produce nothing*; but, do they not *consume?* *Must* they not have a subsistence? And whence is this subsistence to be drawn, but from the amount or sum of production, resulting from the industry of the remaining portion of the community? They must divide with the other working classes of the community that portion of the food, clothing, and the necessaries which has been set apart as capital, and for the purpose of reproduction; or, they must encroach upon that portion which has been reserved as a means only of immediate enjoyment. They must either share the wages of the other laborers: in which case, the rate of wages must fall; or they must be a tax upon the income of the capitalist or land owner; in which case, though the evil may be less sensibly felt, that sound principle is violated which should secure the property of the citizen against all taxation which is wholly without an object, and which does not in any degree, or in any way, contribute to his benefit or advantage.

We willingly admit that if, from the operation of natural causes, the denseness of population in proportion to the extent and productiveness of the soil, or the occurrence of some wide-spread calamity, a portion of the population of a country should be thrown out of employment, humanity, and even a wise policy would dictate, that they should have a fair claim upon the more fortunate residue of the community for support and subsistence. But the question that we have to settle with the advocates of the protective policy, is not whether, when this unfortunate state of things occurs from unavoidable causes it becomes the duty of a commu-

ty to extend its *charity* to those of its members, who, through the act of God, or from some inevitable and hard necessity, have been rendered incapable of replacing what they consume by a corresponding production; (or perhaps, of producing at all,) but whether it be wise or just in the rulers of a country *voluntarily* to *bring about* this state of things, and by legislative enactments to make one portion of the population a burthen and tax upon the rest?

The present condition of Great Britain, burthened as she is with poor rates, levied for the support of a pauper population who add nothing to the stock of national production, offers a striking illustration of the evils which result from over population, and from causes over which the legislature has no control; evils (it may be remarked however) which, even in this instance are not a little aggravated by an unwise and narrow legislation. The United States, if the protective policy should be carried out to its results, will afford a no less striking example of a country, which has VOLUNTARILY anticipated by legislative enactments, those evils, which, in the natural course of things, belong only to nations far advanced in population, and which have begun already to experience the inevitable effects of that condition, in the dearness of food and of all those articles of human consumption which, being produced from the soil, necessarily rise in price when, from a given or limited extent of land, it has become necessary by additional labor to raise a greater and increasing amount of them. It results from this dearness of food and necessaries, that all that portion of the population who from age or natural defects, or accidental misfortune, are incapable of contributing to the amount of national production, or who contribute but a very small proportion, are thrown upon the charity of the rest of the community. In this case, the evil is the effect of the dearness of human subsistence—of the necessity of giving a high average amount of labor for a given quantity of food and necessaries: in the case of a *protective* system, it is the effect of a legislative enactment which *intentionally* raises the price of an article of manufacture to the consumer, *in order* by this means to draw to the home production of this article more laborers or more capital than would be necessary to produce it by commerce and importation from abroad.

It would appear then sufficiently obvious, that where from some circumstances of soil or climate, or other permanent cause,

an article can be procured from abroad at a less cost of labor, than would be necessary to its production at home, any system of impost which shall lead to the exclusion of the *foreign cheap* article and the production of the *dear home* one, must in a greater or less degree diminish the amount and sources of national wealth.

But it will be objected, perhaps, that this reasoning does not apply to the question which has been raised as to the expediency or inexpediency of levying a protective impost upon those articles of British manufacture which may be equally well, and with as little cost of labor, manufactured in the United States. It may be readily admitted that with the aid of equally good tools and machinery, and with equal skill and knowledge (and the latter if not possessed may soon be acquired) the American will be found capable of producing as much work and as good, in the business of manufacture, as the Briton. But this is not at present the question. The question is, whether, with a given amount of capital in the United States, (let this capital be estimated either in money, or in the necessary subsistence and comforts of the laborer,) as large a return in manufactures can be produced, as would be produced in England? The answer is *that it could not.* It is well known that both money wages, and real wages are lower in England than in this country, and it follows that a given amount of capital will command, in the former country, the services of a greater number of workmen than it would in the latter; and that it would consequently bring a larger return in the shape of manufactures. This simple fact, then, that wages, both *real* and *money* wages, are lower in England than in the United States, enables the manufacturer in the former country with a given capital, to produce a larger amount of manufactures than could be produced in the latter with an equal amount of capital. This alone would enable the English manufacturer to sell his goods at a cheaper rate than the American could, and yet make an equal profit. But this is not all. The situation of Britain differs from that of the United States in another very important particular. The amount of her capital is very large compared to the means she has of employing it profitably in reproduction. Profits consequently are low. Even supposing, therefore, that the American manufacturer could produce as much work from a given capital as his English rival, he would not be satisfied to sell it at the same low price; because in America, from the comparatively small amount of capital in

proportion to the means and opportunities of employing it profitably, profits upon capital have always been high.

It may be remarked, in conclusion, that this difference between the situation of the United States and that of Great Britain is in its nature *permanent*. The advantages which it gives the latter country in enabling her to sell her manufactures at a low price, are not of a nature to make us envy her; since they result from the superiority of our position in being able to *obtain greater profits upon capital, and higher wages for labor*. Those advantages, however, such as they are, Britain is likely to retain; and it is to be hoped for the sake of America, *that she may long retain them*. When she shall cease to possess them, America too will have ceased to possess those advantages which *she* now enjoys in having high profits upon capital and high wages for labor. America enjoys these advantages in virtue of her position—possessed as she is of an unbounded extent of fertile territory—the greatest variety of soil and climate, and all the elements of wealth and prosperity in an endless profusion. If England, by a miracle, should become possessed of similar advantages of position, will any man in his senses believe that English manufacturers would be contented with the low profits which they now receive upon their capital? They must, under such a change of circumstances, either exclude, by means of a high tariff, the French, German, and other European, and perhaps even Asiatic manufactures from their market; or they must change the employment of their capital from manufactures to agriculture—from the mere working up raw materials, to the production of the raw materials themselves. If the first of these measures should be adopted, and the statesmen of England should concur in the adoption of a tariff of protection, they would do that which to a certain extent has been done in this country: they would prevent the capital employed in manufactures from being diverted into those *more profitable channels which had just been opened;* and prevent consequently that rise both in profits and wages, which, but for this legislative interference, must have taken place, and have led the country forwards in a train of constant progression and prosperity.

* * * * * * *

I have endeavored above to show, that what is called the "protective system" is founded in error—that to lay a duty upon the importation of commodities of foreign production, with a view

of encouraging (as it is termed) the production of the same classes of commodities at home, is inconsistent with any clear view of sound public economy—that it leads, in its necessary effect, to the adoption of the dearer and more expensive, instead of the cheaper and less costly methods of production—that it proceeds upon the principle of increasing instead of diminishing the labor or the capital necessary to the production of a given amount of work—that in consequence of this, it renders a portion of the labor, or a portion of the capital of the country unproductive—and that it diminishes, therefore, the amount of national production, and operates as a *tax* upon the community, for the payment of which they receive no return in services, and which consists, *not* in a mere transfer of property from one hand to another, but in its *absolute annihilation.*

With respect to those articles, whether of manufacture or of raw produce, which it requires more *labor* to produce at home than it does to produce the means, *directly* or *indirectly*, of obtaining them from abroad by commerce and exchange, the views which I have presented of the question as it relates to *them*, can need, I imagine, no farther elucidation.

With respect to those articles, on the other hand, in the production of which American is equally efficient with British or foreign labor, and which do not require more *hands immediately employed upon* them to produce them; but which, from the high rate of wages in America, require the employment of *more capital* than in the foreign country, in order to produce a given amount of them, I shall add a few farther observations in addition to what I have already said.

I shall begin by observing that by the capital of a country is meant that portion of its valuable effects, or property (exclusive of land) which is set apart for the purposes of reproduction. It follows then, that if supposing the entire wealth of the country to be a given quantity, the productive portion of it, or capital is increased, that portion of it which goes to unproductive consumption is necessarily diminished. This latter portion of the wealth of the country is consumed, (as the terms unproductive consumption imply,) without giving any return *except* in the enjoyments and gratification afforded by the consumption itself. It must be further remarked, that productive capital may be divided into two distinct parts or classes—that part which merely aids or saves labor, by

enabling one man to do the work of many: and that which feeds, clothes, warms and houses the laborer—the former consisting of tools, implements and machinery, farm-houses, store-houses, &c., and the latter of food, clothing, fire and dwelling-houses, commonly called *wages*, and represented by money. Now these things constitute the *real* wages of labor; and the condition of the laboring classes in different countries, compared one with another, is determined by the relative abundance or scarcity with which they are provided with these articles of necessity. Now to show how the condition of the productive and laboring classes may be affected by the imposition of a duty upon the importation of foreign productions, I will suppose a case which I think it will be admitted, is not very different from what has actually occurred in this country. We will suppose that in a country where cotton stuffs enter largely into the consumption of the laboring class, a duty is laid upon all articles of cotton clothing coming from abroad. The effect of such duty must be, under ordinary circumstances, to raise the price of the goods upon which it is levied; for the importer of the goods must add the duty to the price which he pays for them abroad, and must make an average profit upon this aggregate cost. But a rise in the price of a commodity is usually followed (always unless checked by some new cause) by a diminution in its consumption.

If the commodity should be one of the first necessity, as corn for example, the diminution in the consumption of it would be comparatively small perhaps, and be perceptible only in a more careful economy in the use of it. Luxuries, and even comforts must be sacrificed, before necessaries can be given up. In the case of imported cotton clothing, if the duty should be high and the consequent rise of price be considerable, the diminution of consumption might be great. Now, if we suppose, what may easily happen, that the aggregate price should be the same, while the aggregate amount of the commodity consumed is considerably diminished, it would appear that in this case, one of the effects of the duty would be, to oblige the community to stint themselves in the use of the commodity, and the other, that the amount of duty would be placed at the disposal of the government; which, by a wise employment of the sum thus drawn from the expenditure of the people, might indemnify them for the sacrifice they had been compelled to make in the enhanced price of their clothing. This

is the simple case of a duty laid with a view to revenue. But let us suppose the duty laid with a view of "encouraging" the employment of capital in the production at home of the same descriptions of goods which had been hitherto imported from abroad. And for this purpose let the price of the imported goods be raised so high by means of a heavy duty as to enable the (let us say) American capitalist to employ his capital with a remunerating profit in the production of similar goods at home. The effect of this would be, that the goods would be furnished to the consumer partly by American *manufacturing* capital, and partly by *commercial* capital: but whether by the one or the other, the consumer is compelled to pay an addition to the former price; for the commercial capital necessary to import a given amount of such goods is *increased by the duty*, and the manufacturing capital is *increased by the necessity of paying higher wages. Supposing, then, both the commercial and manufacturing capitals to be American, it would appear, that in consequence of the duty, it had become necessary to employ a larger portion of American capital, in order to furnish the consumer with a given amount of goods.* I would ask the champions of a high protective tariff, whether they consider that a country is benefited by being obliged to *increase* the amount of capital necessary for the accomplishment of a given object—the production of a given amount of commodities? If so, it would follow, that if the whole of the capital now employed in the United States in agriculture, commerce and manufactures, were concentrated upon agriculture alone, and produced no more of the fruits of the earth than are now raised by a portion of that aggregated capital, the country would be the gainer by it! The example of England may serve to throw some light upon this point. *Her* policy, the opposite in some respects of that of Mr. Clay and his admirers, is the encouragement of agriculture. Her corn laws, by taxing foreign corn, raise the price of corn grown in England, and this leads to the employment of a larger capital in the cultivation of corn than would otherwise have been so employed. But as the lands taken into cultivation in consequence of this artificial stimulus are comparatively sterile and unproductive, *the yield is small in proportion to the outlay. The entire capital of the country is by this means rendered less productive.* A portion of it is (as it were) paralyzed, by being employed upon land which scarcely yields more than is required for its cultivation. If, instead of being

thus unproductively employed, it had been converted into manufacturing capital, its product would have been far more valuable, in the shape of manufactures, and would have furnished the means of *purchasing from abroad* an amount of corn far greater than the same capital would yield when *laid out upon a poor and unproductive soil.* The error of this policy is of the same nature with that of the "American protective system," as it has been improperly and absurdly called. The principle is the same. The only difference is, that the British protective system, or in other words, *the corn laws*, tax the community for the purpose of drawing as much capital as possible to the cultivation of land, and by that means of raising rents and the value of land, for the benefit of the land owners—while the American system seeks by the same process of taxation to draw the capital of the country to the business of *manufacture*, in which, for reasons already stated, it appears it is comparatively unproductive. These are, as we have said, *the high wages and high profits* which prevail in the United States. It is for these reasons that a capitalist in America cannot be induced to employ his capital in manufactures, (or, at least, in certain manufactures where much labor is required,) unless the price of the manufactured commodity is artificially raised by taxation, or the imposition of duties. The high *wages* oblige him to increase the amount of his capital with a view to a given result—the production of a given quantity of manufactures; and the high *profits* which may be made in other employments of capital naturally attract his capital to *them*, and *from* those in which the product in the shape of manufactures is small in proportion to the necessary outlay or capital, and would *not* afford a remunerating profit, but for the tax laid upon the consumer in the shape of an *enhanced price*, which, if he pays it, prevents his buying some other commodity which he had been in the habit of consuming; *and thus discourages one branch of industry as much as it encourages another;* it being kept in mind, that had no such tax been imposed, the community would have been *better* furnished with that description of commodities of which the *home* manufacture is encouraged, and have *continued to consume other commodities, which in consequence of the tax, they have been compelled to give up, and which, consequently, are no longer produced.*

In the foregoing observations, I have made little or no allusion to the proceeds of the impost, or to the disposition that may

be made of them; and the way in which that disposition may affect the public weal, in an economical point of view. It is almost too obvious to need remark, that where a duty is laid with a view to *diminish* or to *prevent* foreign importation, the proceeds of the duty could never have been contemplated as an essential or important part of the act *imposing it.* A heavy duty laid upon an imported article, may often have the effect of a prohibition. Some similar article may be substituted in its place, upon which no duty or a light one may happen to have been laid. So, where heavy duties, with a view to discourage importation, and "protect" (as it is called) home manufacturers, are laid upon a few favored articles, their effect could add but little to the amount of the public revenue. A revenue law, in order to be effective, must lay moderate imposts upon *a great number of imported articles;* while a protective law must lay *heavy imposts upon a few only.* The former proceeds upon the principle of checking importation in the *smallest degree possible*, compatible with the raising of a revenue—the latter, on the contrary, *seeks to check and discourage it as an essential part of the productive system.*

I PROPOSE now to examine

A POSITION OF THE ADVOCATES OF A HIGH TARIFF,*

which, as it has been frequently employed as an argument in favor of their views of commercial policy, and has even on many occasions been brought forward on the floor of Congress by men of the highest reputation for talents, may be deemed entitled to more attention than, upon a nearer view of the matter, it will be found, I think, to merit. The position I allude to is, "that were all nations (that is all nations with whom we have commercial intercourse,) to adopt the system of free trade, the advantages of that policy would be unquestionable: but that so long as foreign States adhere to the opposite system of commercial restrictions, we have no choice left but to meet and counteract their restrictions upon our trade, by the imposition of similar restrictions upon theirs." Now, to the first branch of this proposition I give my most cordial assent. The advantages of the free trade sys-

* Originally published anonymously—republished with some alterations.

tem upon the supposition of its being adopted by foreign States *are unquestionable*, and are admitted (as it appears) even by the advocates of the opposite policy. The question then that we are to examine is, whether, when foreign States have adopted a *different* policy, and have loaded our commerce with them, with imposts and restrictions, it is still advantageous for ourselves to adhere to the free trade system, laying only such moderate duties as are necessary for the purpose of revenue? Whether the injury done to our commerce by the impositions laid upon it in foreign ports is in any degree alleviated or *counteracted*, by our laying similar impositions upon their commerce in our ports? The answer is, that as a general rule, it is not. That so far from the injury being alleviated or counteracted by such retaliatory measures, it is only in fact aggravated. It must be considered that when a foreign state, (England for example,) lays an impost upon American produce, the effect of such a measure is not (as some would seem to suppose) confined to the injury which America sustains. England *too* sustains an injury, though inflicted by herself. She cripples American commerce it is true, by contracting the market for the sale of American products; but, by the same act, she obliges her own subjects to purchase American products at a price, enhanced in proportion or nearly so to the amount of the duty—Let us suppose the American product on which the duty is laid in Britsh ports, to be cotton (for example.) The effect of the duty will be to raise the price of that article in England, though at the same time perhaps to depress it (at least for a time) in America. If the price is depressed in America, it is because the exporter of the article to the British market is compelled to demand in England, the price which he has paid in America, added to the duty which he pays in England, together with an ordinary profit upon the aggregate. Thus the rise of a price in England leads to a diminution of consumption, which thus reacts upon the price in America in depressing it.

Now, if this depression were permanent, and to the amount of the duty, America alone would be the sufferer; but as it is the effect of the diminished demand for the article (occasioned by the diminished consumption of it in England) and the consequent change which has taken place in the proportion between supply and demand, it will continue only until the natural equilibrium shall have been restored, and the supply diminished to correspond with

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the lessened demand. The price of the article in America, however, though not so much depressed as at first, might still continue less than it was before the diminution in the demand for the article took place. This would be, not merely probable, but in the case of so important an article of export as cotton, quite certain, from the difficulty that would arise of finding an equally profitable employment for capital in other departments of industry, and also from the diminished extent of cultivation affording a better choice of lands, and tending therefore to lessen the cost of production. This conclusion, it must be remarked however, proceeds upon the supposition of the foreign duty being sufficiently high, to cause a great and sensible diminution in the consumption of the article, and consequently in the demand for it; and upon the further supposition of the capital and labor employed in the exporting country in the production of cotton, bearing a very large proportion to that engaged in other pursuits of industry. To what extent the price of it would be depressed, cannot of course, except in a comparative sense, be predicated, even in any particular case, and with a knowledge of all the circumstances connected with it. Our aim, however, is not to follow out all the various results which must take place under every variety of circumstances; but to point out the leading *principles* which govern the question; and to show, that under ordinary circumstances, the imposition of a duty upon an article of our produce in a foreign country, though it may in some degree depress the price of the article in the exporting country, must have the effect of raising it, and consequently making the article dearer in the country which imports it. *The permanent depression of the price* in the exporting country, may, in some cases, be scarcely perceptible, because the article may have been, before the imposition of the duty, sold at the lowest price consistent with an ordinary profit to its producers: and, considered as one of the branches of industry, may not be of sufficient importance when compared with the rest, to render its prosperity or decline a subject of national concern. In such a case the *country imposing* the duty must be the chief, if not the only sufferer, and must pay for its consumption of the imported commodity *the whole of the tax levied, in the shape of an enhancement of price;* for, as the importing merchant pays the same price to the producer (say in America), and must pay the duty in addition upon its importation into England (to

take the former example), he cannot but be a loser unless he obtain the original price thus augmented by the duty, together with the ordinary profit upon his outlay. If the enhanced price should under these circumstances affect the amount of the article consumed, the only effect which this would produce in the exporting country would be, *an adaptation of the supply of the commodity to the diminished consumption*, and the consequent transfer of a portion of the capital and labor engaged in its production, to some other employment. This last result, though not necessarily followed by any perceptible or sensible diminution in the general rates of wages and profits, must always be attended with some actual lots, it is true, to the sum of the national wealth; as it implies a forcible change in the natural distribution of the capital and labor among employments. If, on the other hand, the enhanced price is followed by no diminution of consumption, which may sometimes, though it does not often happen, *England, who imposes the duty, will alone suffer from the consequences of her own act.* The commodity cannot be produced in America at a less price—the duty must be paid by the importer and added to the price in England; and the English consumer is willing, rather than diminish his consumption, to pay this accumulated price. *Here then is a case in which a duty, designed in the wisdom of legislation (perchance) to alleviate or counteract the restrictive measures of a foreign country, has no other effect, than to burthen with a tax, those who were intended as the special objects of its protection.* But what is true in this regard of England, is, under like circumstances, true of any other country. *A duty therefore may be laid in the United States, upon a commodity imported from a foreign country, which shall have no other effect than that of raising the price of it in their own market, and that too to the whole amount of the duty, and consequently of taxing their own citizens who consume it to just that amount.* In order to illustrate still further the principles which belong to the question, we will suppose a case not varying much from the actual relation in which the United States stand towards England. The value of a certain raw material (cotton for example) supplied by the former, falls short of being a fifth part of that of the manufactured goods which are wrought from it, by the skill of the latter. Of the amount of the manufactured goods, more than a third is consumed in England, and the remainder exported. Of the latter portion, the United States may take one

half, that is, less than a third of the whole value of the goods manufactured. Now let us suppose the United States government to lay a duty upon the importation of these manufactured goods, what will be the effect of such a measure? If the duty is so high as to be prohibitory, the first effect must be to reduce the price of the manufactured goods in England, and in the foreign countries to which she still can send them; the supply being *for the time* greater than the demand. The second effect must be to reduce the amount of capital employed in manufacturing in England, *and to lessen the demand for the American raw material.* At the same time the American consumer of the manufactured goods in question, that is, eight-tenths of the population, is compelled to forego the use of commodities, many of which, from habit or other causes, may have become necessaries of life; or, after the lapse of a longer or shorter period, to purchase them of the home producer at a great advance of price; and I have already shown that this enhancement of price is not in its nature temporary, but arises out of the circumstances connected with our situation, and the relation in which we stand to older nations, where profits and wages are comparatively low. It appears from this, and the previous examples, that the consequences of laying a duty upon foreign imports are far more complex in their nature and bearings, than they are generally supposed to be; that they vary with circumstances, and with the varying relations in which nations stand towards one another in their commercial intercourse; and that it is taking a very narrow view of the subject to suppose that the whole burthen of the duty must, as a matter of necessity, fall upon the country on the importation of whose produce the duty is imposed; when (as it appears from some of the examples) the very reverse of this is much more likely to be true. Commerce between any country and the rest of the world consists simply in *an exchange of commodities*; and the more of foreign commodities that the former can obtain in exchange for those of its own production from the latter, the greater must be its commercial prosperity. *Now, whatever the amount of goods which may be exported to foreign countries, that amount constitutes the fund out of which must be paid the cost and expenses of the entire amount of importation: it follows, then, that if that cost and those expenses be increased, whether artificially by a duty, or by any other cause, either the importation must be diminished, or to prevent*

'Each transaction being settled by money —

this, the exportation must be increased; in either case the result must be, as a matter of necessity, a loss to the amount of the national wealth. This is the broad rule which we should keep in view in examining the present question." It admits of no exception or qualification, unless in those cases in which the imposition of the duty has the effect (as we have seen it sometimes has) of influencing, by depressing the price of imported commodities in the producing and exporting countries. The cases, however, in which any such effect can take place permanently, are rare. If, in consequence of the duty, the foreign commodity is less in demand for exportation in the producing country, the only effect, beyond a *temporary* depression of its home price, is the transfer of capital and labor from the business of producing it, to some other employment; *when its home price would again rise,* and its price in the importing country be permanently higher, by the amount of the duty, than it was previous to its imposition. Would not a colony, dependent upon the mother country for a market, form an exception to the general rule? Might not the mother country, by means of high duties imposed upon the importation of colonial produce, compel the colony to bear the burthen of the duties? Would not the colony, having no other market but that of the mother country, and few other employments for labor and capital (it may be) than those which minister to her wants, and are dependent for their continuance upon the supply of her demands, be compelled by the imposition of duties in the ports of the mother country upon the importation of colonial productions, to abate somewhat of the colonial prices? in other words, to take less of the products of the mother country in return for those of the colony? Thus enabling the mother country to lessen the amount of her exportation, while that of her importation should continue unimpaired, and thus enriching her at the expense of her colony? *The dependence of* the colony upon the mother country would enable the latter to obtain temporary advantages, without doubt; but it may be very much questioned whether in a general scheme of policy, it would be wise or prudent (and certainly it would not be just) to burthen the restricted and monopolized commerce of the colonists with onerous imposts; admitting even that the mother country would by so doing, for a time, and to a limited extent, be a gainer. *The prosperity of the mother country, it cannot be denied, may often be greatly dependent upon the rapid*

growth and improvement of the colony: and these latter conditions can scarcely be conceived compatible with the supposition of oppressive and enormous taxation. The case of a dependent colony, therefore, it would appear, can scarcely be regarded as forming an exception to the general principle which we have endeavored to establish; to wit, that heavy imposts upon foreign importations are, except where absolutely necessary for the purposes of revenue, contrary to all sound and just ideas of public economy; *that they do not counteract the injurious effect of similar restrictions imposed in foreign ports*—that so far from it, they only aggravate the evil; and in their tendency and principle, *are destructive of all the benefits arising out of the commercial intercourse of nations.*

It is assumed, it must be kept in mind, in the foregoing remarks, that the duty is laid, not for the purpose of necessary revenue (which all are ready to admit a sufficient reason for its imposition,) but to counteract, as it is expressed, the injurious effect of foreign restrictions, and under the idea that the burthen of the tax thus levied, must, as a matter of necessity, be borne by the foreigner whose commodity is subjected to the impost. The inevitable inference from such a doctrine would be, that imposts upon foreign commodities always, and apart from the necessary purposes of revenue, must in themselves, and without looking beyond them, be regarded as a national benefit.

I trust that, in what I have said above, I have sufficiently exposed the fallacy of such an opinion, and shown that all imposts *are in themselves* an evil, and that as a general rule, there is and can be no good or sufficient reason for imposing them, *except the necessity of raising revenue.* You have shewn nothing of the kind.